INDIA BEFORE
AND
SINCE THE CRISIS

VOL. II

By

BRIJ NARAIN

Professor of Economics

Sanatana Dharma College, Lahore.

The Indian Press, Ltd.

ALLAHABAD

1939.

WORKS BY THE SAME AUTHOR

Tendencies in Recent Economic Thought
(Delhi University, 1935)

Indian Socialism
(Lahore, 1937)

Marxism is Dead
(Lahore, 1939).

Printed and Published by
K. MITTRA AT THE INDIAN PRESS LTD.
ALLAHABAD.

TABLE OF CONTENTS

Vol. I

Part I.—POPULATION, PRODUCTION.

		Page
Introduction	.. ..	
Chap..	I.—Area and Distribution	1
	Density according to administrative and natural divisions, 2-3. Irrigation as a factor affecting density, 5. Density of population in Europe, 7. Industries in India, 10. Pressure on agriculture, 13. The position in different provinces, U. P., 17. Bihar and Orissa 18. C. P. and Berar, 19. Bombay and Madras, 20. Bengal, 21. Punjab, 22. Assam, 23. Outlets for surplus population, 24. A hopeless situation, 26.	
Chap.	II.—Movement of the Population and Civil Condition	33
	Our irregular rate of increase, 34. Our rate of increase as compared with Europe, 40. Birth and death rates, 44. Infant mortality, 50. Age-distribution, 51. Expectation of life, 53. Sex ratio, 55. Marriage, 57. Towns and villages, 59. Housing, 63. Literacy, 63.	
Chap.	III.—The Malthusian Doctrine and Over-Population	70
	The Malthusian Law and India, 75. Symptoms of over-population, 78. The problem of distribution, 81.	
Chap.	IV.—Agricultural Production and Related Problems	87
	Yield of principal crops, 87. Distribution of crops, 88. Population and food-supply, 89. Soil deterioration, 92. Uneconomic holdings, 93. The State in relation to agriculture, 95. Animal husbandry, 97. Forests, 102. Irrigation and water-logging, 104.	
Chap.	V.—Industrial Production	118
	Value of mineral production, 120. Coal, 121. Manganese, 123. Other minerals, 123-24. Manufacturing industries. Causes of industrial backwardness, 125. Iron and steel, 128. The cotton mill industry, 134. Sugar, 141. The match industry, 144. Cement, 148. Paper, 150.	

Jute, 154. Tea, 157. Indian factories, 1936, 159.

CHAP. VI.—COTTAGE INDUSTRIES .. ..

The Village Industries Association, 163. Work of an Industries Department, 165. Causes of the decline of cottage industries, 167. World forces and tendencies, 171. Rural self-sufficiency, 174.

Appendix. Account of cottage industries in different provinces, 178.

CHAP. VII.—INDUSTRIAL LABOUR .. ..

The Indian Labour Commission, 186. Government action on the Labour Commission's Report, 188. Mines, 190. Payment of wages, 191. Workmen's Compensation, 193. The Standard of Living, 196. Wages in India and Russia, 205. Industrial Disputes in India, 207. Trade Unions, 208.

CHAP. VIII.—EDUCATED UNEMPLOYMENT .. ..

Aims of education in Italy and Russia, 213.

Work of unemployment committees, Bengal, 215. U. P., 217. Punjab and Madras, 220. Conclusions, 224-27.

PART II.—TRANSPORTATION, TRADE, TARIFFS.

CHAP. IX.—RAILWAYS .. .. ..

State *versus* Company management, 231. Separation of the railway budget from the general budget, 233. Government and Indian railways, 235. Organisation for Government control, 238. Indian railways in the depression, 241. Rail-road competition, 244.

CHAP. X.—FOREIGN TRADE AND TARIFFS .. ..

Character of our foreign trade in the 16th and 17th centuries, 247. Tariffs, 253. Imperial Preference, 256. The Ottawa Agreement, 262. The New Indo-British Trade Agreement, 269.

CHAP. XI.—GOLD EXPORTS .. .. ..

Gold imports and exports, 272. Price of gold, 273. Advantages claimed for gold exports, 275. Future price of gold, 282. The case against gold exports, 285.

Vol. II

Part III.—RECOVERY, PLANNING.

Chap. XII.—Indian Prices 291

Prices 1861-1905, 291. Influence of the export trade, 292. Prices 1905-14, 294. The war-period, 1914-1920, 299. Fall of prices after 1920, 300. Prices since 1929, 301. Effects of the heavy fall of prices, 302.

Chap. XIII.—The Crisis 311

Fall of prices 1929-33, 312. The conjunctural explanation, 316. The American boom, 318. Debtor and creditor relations, 321. The financial crisis of 1931, 327.

Chap. XIV.—The Crisis (*contd.*). Causes: Monetary and Non-Monetary 330

The mechanism of the gold standard, 330. The collapse of the gold standard, 332. Gold absorption by France, 334, and by the United States, 336. Non-monetary causes, 337. Over-production, 340. Evidence for over-production, 344. Wheat, 347. Cotton, 348. Inter-action of monetary and non-monetary factors, 350. Conjunctural expansion and structural over-production, 354. Silver, 358. Wages, interest and taxes, 361. Cartellisation, 363.

Chap. XV.—Recovery 366

Factors of expansion, control of production, 367. Currency depreciation, 368. Re-armament, 371. New methods of international trading, 373. Industrial recovery in India, 375. Causes of industrial recovery, 378. Agricultural recovery, 379. The future of Indian agriculture is gloomy, 380.

Chap. XVI.—Economic Planning 382

Growing importance of economic planning, 383. Crop-planning in India, 385. Sir M. Visvesvaraya's plan 386. Difficulties of planning in India, 387. State regulation in Italy and Germany, 389. The Corporate State in Italy, 390. Italian Syndicalism, 397. Italian Labour Courts, 399. Socialist planning, 401. Over-production and under-consumption, 403.

Appendix. The Italian Charter of Labour, 407.

PART IV.—MONEY. BANKING. AGRICULTURAL CREDIT.

CHAP. XVII.—CURRENCY AND EXCHANGE 415

Indian currency, 1935-97. The position of gold in the currency, 416. The fall in the gold value of silver, 419. Foreign trade, 1873-95, 422.

Indian currency, 1898-1914. The Fowler Committee, 425. The gold exchange standard, 426. The exchange crisis of 1907, 428. The Chamberlain Commission, 430.

Indian currency, 1914-20. Rise in the price of silver, 433. Babington-Smith Committee, 435. Fall of exchange in 1920, 437.

The gold bullion standard, 441. Defects of the pre-war currency and exchange system, 445. The question of a gold currency, 447.

The 18d. gold rate. The official case, 450. The case examined, 452. Course of world gold prices in 1925, 459.

The sterling exchange standard, 464. The demand for the 16*d*. ratio, 465. Meaning of devaluation, 467. The consumer, 469. The Home Charges, 470. The rupee over-valued, 472.

CHAP. XVIII.—BANKING 476

The Imperial Bank of India, 476. Exchange Banks, 477. Indian joint-stock banks, 479. Inadequacy of banking facilities, 481. Demand for a central bank, 483. The Reserve Bank. Constitution, 485. The business which the Bank may and may not transact, 486. Central banking functions, 487. Relations with other banks, 488. The question of elasticity, 489. Scarcity of bills, 490. The Reserve Bank and exchange, 491. Industrial banking, 493. The managing agency system, 495. External capital, 496.

CHAP. XIX.—AGRICULTURAL CREDIT 500

The initiation of the co-operative movement 500. Act of 1904 amended in 1912, 502. Early history of the co-operative movement in the Punjab, 503. Progress of the movement in the Punjab and other provinces, 507. The years of depression, 509. Consolidation of holdings, 511. Land Mortgage Banks, 512. Reserve Bank Report on agricultural credit, 515. Farm relief in other countries, 520. Recommendations of the Central Banking Enquiry Committee, 530.

CHAP. XX.—AGRARIAN LEGISLATION, PUNJAB .. 533

Regulation of Accounts Act, 1930, 533. The Relief of Indebtedness Act, 1934, 533.

The Punjab Agricultural Markets Act, 1938. The 'Golden Bills,' 539. 'Swallowing up,' 542. Who is a small owner? 545. Sales of land in the Punjab, 547. Land under tenants, 549. Landlordism, 553. Landlord rights, 556.

CHAP. XXI.—AGRARIAN LEGISLATION, OTHER PROVINCES .. 560
Bihar, 562, U. P. 568. Madras, 570. Bombay, 571.

PART. V.—TAXATION. INDIAN FINANCE. PROVINCIAL FINANCE.

CHAP. XXII.—TAXATION 577
Taxable capacity, 577. International comparisons of tax-burdens, 578. The income-tax, 580. The 'slab' system, 580. Rural taxation. The water-rates, 585. The land revenue, 590. Rent and revenue, 591. The views of the Taxation Enquiry Committee of 1924-25, 594. Land revenue in the Punjab, 596. 'Net assets,' 597. Calculation of net assets in money, 598. Peasant proprietors' net assets are not identical with landholders' net assets, 601. Net assets as profits on direct cultivation, 606. The sliding scale, 607. Actual and prospective net assets, 614.

CHAP. XXIII.—INDIAN FINANCE 618
Pre-Reform finance, 618. Separation of provincial from Indian finance, 623. Provincial Contributions, 625. Effects of the trade depression, 628. The financial situation in 1936-37 and subsequent years, 634. Budget for 1939-40, 636.

CHAP. XXIV.—PROVINCIAL FINANCE 639
The Niemeyer Award, 639. The Punjab and the Niemeyer Award, 643. Review of the financial situation in the provinces, Punjab, 644. Bengal, 645. Sind, 647. Bombay, 648. Madras, 650. U. P. 651. Bihar, 653. Orissa, 654. Assam, 655. C. P. & Berar, 655. N. W. F. P. 656. General conclusions on the working of provincial autonomy, 656. Provincial budgets, 1939-40, 659.

CHARTS. FACING PAGE

1. Growth of numbers in India and England and Wales, 1872-1831 34
2. Growth of numbers in India, Russia and Europe, 1850-1910 40

3. Growth of numbers in certain European countries, 1850-1910 42
4. Percentage increase of population in India and Europe, 1850-1910 44
5. Birth and Death rates in India, 1885-1930 .. 46
6. The birth rate in India and Germany, 1900-1930 .. 48
7. Ratio of deaths per 1000 among Hindus, Mohammadans and Christians, 1911-33 50
8. Age pyramids for India and England and Wales (1921) 52
9. Number of survivors at different ages in India and and England, (1901-1910) 54
10. Expectation of life at different ages in India (1901-10), Japan (1898-1903), England (1901-10) and Sweden (1901-10) .. 56
11. Proportion of the unmarried, married, and widowed in the population of India (1931) 58
12. Proportion per cent of marrying men and women in Germany at different ages, 1913 60
13. Proportion per cent of illiterate persons in different countries, all ages 10 and over 64
14. Cotton cloth, Indian mill production, 1914-38 .. 138
15. Sugar, production and imports, 1930-38 .. 142
16. Percentage share of the United Kingdom in India's foreign trade, 1871-72 to 1937-38 .. 256
17. Percentage share of Germany in India's foreign trade, 1871-72 to 1937-38 256
18. Percentage share of the United States in India's foreign trade, 1871-72 to 1937-38 258
19. Percentage share of Japan in India's foreign trade, 1871-72 to 1937-38 258
20. Gold, net imports and exports, 1859-60 to 1937-38 .. 273
21. Wholesale prices at Calcutta, 1915-38 .. 300
22. Price of cotton manufactures and raw cotton, 1915-38 302
23. Index numbers of prices of exported and imported articles, 1861-1936 305
24. Price of rice in India, annual and moving averages, 1861-1936 307
25. Price of wheat in India, annual and moving averages, 1861-1936 309
26. Price of rice and wheat, 1861-1936. Short-term fluctuations, eliminating the general trend .. 309
27. Exports of Indian merchandise and imports, 1913-14 to 1936-37 310
28. Net exports of merchandise, 1913-14 to 1936-37 .. 379

29. Quantity and value of exports of raw cotton, 1924-25 to 1937-38 380
30. Price of silver, sterling exchange and bullion value of the rupee, 1873-1936 439
31. The 'step' and the 'slab' system 584
32. Punjab Canals and N. W. R.: Net revenue as percentage on capital, 1913-14 to 1935-36 .. 586
33. The Sliding Scale system of assessment: percentage of 'net assets' which Government demand is likely to absorb 612
34. The customs, land revenue, income-tax and salt tax, 1913-14 to 1935-36 638

Vol. II

SUMMARY

Chapter XII.—Indian Prices, Page 291

1861-1905. Prices gradually rose. This was chiefly due to the rise of the export trade. But prices were still subject to seasonal fluctuations.

1905-1914. Prices rose continuously and rapidly ('famine prices without famine'). The rise of prices was connected with the gold exchange system. Before 1893 hoarding and melting accounted for about 45-50 per cent of the coinage. When the rupee became a token coin, the melting of rupees ceased and gold was preferred for hoarding purposes. The rise of prices became very marked after 1905; in the triennium 1905-06 to 1907-08 the total net coinage of silver exceeded the total net coinage in any period of *five* years before the closing of the mints.

1914-29. All prices rose during the Great War but those of exports rose to a smaller extent than the prices of imported goods. The reason was shortage of imports. Currency inflation on an extremely modest scale as compared with European countries also assisted the rise of prices.

Prices reached their highest level in 1920, after which they fell. The prices of post-War years were inflated. Between 1920-21 and 1929-30 net withdrawals of currency amounted to 86 crores.

Prices since 1929. From 141 in 1929 the Calcutta index (annual average, July 1914=100) fell to 87 in 1934. The index rose steadily thereafter to 102 in 1937, but fell to 95 in 1938. The effects of the heavy fall of prices may be thus summarised:

(*i*) Agriculture has become unremunerative over a large part of the country, (*ii*) the result in the case of the tenant is that he works almost entirely for the benefit of the landlord, (*iii*) the burden of rural debt has increased beyond the capacity of the borrower to pay, (*iv*) the burden of Government dues has become intolerable, (*v*) the agriculturist suffers specially because what he buys is dearer and what he sells is cheaper than before, (*vi*) the country as a whole is a loser since it has to part with a larger quantity of primary products to obtain a given quantity of manufactured imports, and (*vii*) imports have been paid for to an amount over 321 crores by the export of gold.

Chapter XIII.—The Crisis, Page 311

The Crisis, which began with the heavy fall of prices in 1929, was different from the ordinary conjunctural crises. The crisis was world-wide.

There is not much evidence of an extraordinary or universal boom, preceding the depression. There was an improvement in some countries and a recession in others and the degrees of improvement or recession in different countries were different. Boom conditions, however, did exist in the United States in 1928 and 1929. There was no great rise of prices but business profits increased on account of the fall in costs of production made possible by technical progress. Easy credit was largely utilised for speculative purposes and when discount rates were raised by the Federal Banks, there was a stock exchange crash.

The fall of agricultural prices made it difficult for agricultural countries to pay their debts, and their gold reserves began to disappear. Before the abandonment of the gold standard by England, Urguay, Argentine, Australia and Mexico had already suspended the gold standard officially. The currencies of six other countries had also depreciated in relation to gold.

The *immediate* cause of the abandonment of the gold standard by England was the drain of gold. The weakness of the Creditanstalt (Austrian bank) in 1930-31 had repercussions in Germany whose short-tern indebtedness was very considerable. Relief was given to Germany by the 'Stand-still Agreement,' but the panic spread to England and the Bank of England began to lose gold. The drain of gold ceased only with the suspension of the gold standard.

England's return to gold in 1925 was a mistake and, in view of her declining exports, quite apart from the drain of gold in 1931, it would have been impossible for England to remain on the gold standard much longer.

CHAPTER XIV.—THE CRISIS (CONTD.) CAUSES MONETARY AND NON-MONETARY, PAGE 330

There is no agreement among economists regarding the causes of the crisis.

The monetary explanation runs as follows. The War made France and the United States creditor nations. They insisted on payment in gold and 'bottled up' the gold they received. The blame for the crisis thus rests on these two countries. But high authorities like Rist (France) and Irving Fisher (United States) take a different view. The situation in the gold-losing countries might have been met by economising the use of gold or 'slimming the Golden Calf' (Withers). The Golden Calf, however, was not slimmed.

The non-monetary explanation lays emphasis on over-production. Indisputable evidence exists to show that the agricultural revolution altered

the whole structure of world supply and world demand in the case of wheat, cotton and other primary products. The industrial output of the world was also rapidly expanding—attention may be particularly drawn to the growth of 'coloured' capitalism. The true explanation of the crisis lies in structural over-production rather than in conjunctural expansion.

It is not possible to frame monetary policies so as to counteract the effects of fundamental structural alterations in supply and demand.

The fall in the price of silver reduced the purchasing power of silver-using countries. But the purchasing power of India depends more on commodities that she produces and sells abroad. In any case, the loss of purchasing power on account of the fall in silver was more than counter-balanced by the sharp rise in the price of gold.

The high level of taxation in many countries retarded the adjustment of industry and commerce to the new conditions of competition.

The rise of national economies (Autarkie) is largely the result of the depression. It is an attempt by each country to safeguard its own position. The protection of agriculture in the industrial countries of Europe inevitably reduced their demand for the produce of agricultural countries.

Chapter XV.—Recovery, Page 366

The worst year of the depression was 1932-33, after which there began a gradual revival of trade and industry. The recovery has not been steady and continuous; it has been marked by 'notable set-backs.' The year 1936 was 'one of rapidly expanding production and of equally growing optimism.' Progress continued until the first quarter of 1937, when signs of another depression became noticeable.

Factors of Exjansion: (1) An attempt was made to re-adjust supply to demand by controlling production. The supply of primary products was restricted. In addition, national schemes were evolved for the combined regulation of imports and internal production in many countries; the output, sales and prices of many manufactured commodities were regulated by means of national and international cartels.

(2) A second factor in recovery was currency depreciation. The devaluation and depreciation of a number of currencies created a difficult situation for the Gold Bloc. The method of 'self-castigation' (deflation) was tried by Italy, Germany, Belgium, France, Holland, but without relief. In the end Belgium devalued her currency and the conclusion of the Tripartite Currency Agreement between France, England and the United

States in Sept. 1936 was followed by devaluation in Switzerland, Holland and Italy.

When the Government of India state that a lowering in the ratio would do no good to any body except Indian moneyed and speculative interests, they ignore the beneficial results of devaluation to which the currency history of the world in recent years bears eloquent testimony.

(3) Re-armament expenditure (estimated at £3,000,000,000 for the whole world in 1936) generated employment and incomes.

(4) National recovery has been helped by the new methods of trading, that is, trade agreements, monetary and quantitative restrictions applied to international buying and selling, bilateral trade and clearing systems.

Industrial recovery in India is shown by the growth of industrial profits, increase in the value of variable yield securities and *Capital's* index of industrial activity. The causes of our industrial recovery are mainly two: protection and Government patronage of Indian industries.

There is not much evidence of agricultural recovery. There has been some slight change for the better, but no marked rise in the prices of staples of export has taken place. India cannot rely on a growing foreign demand for her exports. The present situation is far from satisfactory, and the future of Indian agriculture is gloomy.

CHAPTER XVI.—ECONOMIC PLANNING, PAGE 382

Economic planning is winning adherents every where: "The present is characterized by planless control and regulation as the past was by planless freedom and individual choice; the future will be characterized by planned development of the economic system" (Sombart).

At the end of 1938 the Indian National Congress appointed a Planning Commission, which has started collecting statistical data. But real planning in India under existing conditions is impossible: (*i*) Economic planning without political power has little chance of success. (*ii*) A central authority is needed for planning. The Government of India is the proper planning and co-ordinating authority and the Government of India is not a responsible Government. (*iii*) It is extremely improbable that India will be allowed a free hand in fixing exchange at a lower rate or in further raising the tariff wall. (*iv*) Certain industries, e.g., ship-building cannot be developed without discriminating against British interests, which is not permitted by the Constitution Act. (*v*). Congress and non-Congress Provinces and the various political parties will not be easily persuaded to work

together. (*vi*) It is doubtful if India possesses a sufficient number of men with the requisite technical ability to evolve a plan and to execute it.

Planning in essence is the control and direction of the whole economic life of a country for the realisation of pre-determined aims, *e.g.*, increase of production, abolition of unemployment, raising the standard of life of the people.

Planning is easy when the State owns all instruments of production and is the sole employer.

In Italy and Germany, private enterprise has not been abolished formally but it is subject to the severest regulation. In fact, private enterprise in Italy and Germany is not free—it is subject to 'a very advanced degree of government regimentation.' In Soviet Russia foreign trade is a State monopoly, but both in Italy and Germany nothing can be exported or imported without the permission of the State—there is both monetary and quantitative restriction of foreign trade. The State fixes all prices in Russia. But price determination is not left to the free play of competitive forces in Italy or Germany either. There is very little of free competition left in these Fascist countries, whether in agriculture or in industry.

The Corporate State in Italy. The Italian nation is regarded as an 'organism' with aims superior and more powerful than those of individuals or groups composing it. Italian fascism speaks of *laissez faire* or the old liberal outlook, with contempt. A new conception of the State has arisen, the State that is all-in-all.

It is evident that if a nation is to function as an 'organism' or a unity in the economic, moral and political sense, the entire life of the nation must be controlled and directed by a central authority. A vast organisation has been set up in Italy, in the form of the Corporate State, to regulate economic life.

The economic constitution of fascist Italy consists of four elements: syndicates, which may be called primary cells of the economic organism; federations, which are unions of syndicates; confederations, composed of federations as members; and Corporations, which are central unifying organisations. Above all, supervising the working of the whole economic hierarchy, is the Council of Corporations, with Mussolini as President.

Under fascism there is close co-operation between Government and the business world. As an economic system fascism may be described as a compromise between individualism and socialism. It is neither of the two completely, but it is something of both in parts.

Labour is a social duty in Italy and strikes and lock-outs are illegal. The Labour Court is the organ through which the State settles labour disputes.

Socialist Planning. The chief features of socialist planning are the following. The State owns and controls the means of production, including

land, and in consequence, the decision as to the quantity and quality of goods to be produced rests with the State or the planning machinery of the State. Competition is the chief regulator in the capitalist world, and the hope of profit its chief driving force. In a socialist economy the place of competition is taken by deliberate selection.

Those who plan production and those who direct the execution of the plan in a socialist economy must be men of the highest intelligence and character. Corruption and inefficiency in the socialist bureaucracy and impatience and lack of faith in the general public would be fatal to the success of socialist planning.

Economic planning is not patch-work. It must be comprehensive, embracing all fields of economic activity, the whole of production and the whole of distribution.

Economic planning cannot be sectional because economic life is not sectional. The various aspects of our economic life are so closely intertwined that a national plan of reconstruction cannot neglect any without deforming the whole structure.

Socialist planned economy is of a unitary character. In the domain of industry attention is concentrated on machine-making and development of the sources of power. In agriculture collective farming with power-driven appliances is the distinguishing feature. Production is on a large scale, or economic planning in the socialist State is on the basis of the machine, whether in agriculture or industries.

CHAPTER XVII.—CURRENCY AND EXCHANGE, PAGE 415

1835-1893. Before 1835 a great variety of gold and silver coins circulated in different parts of the country. No less than 27 varieties of rupees were current in Bengal. The circulation of several denominations of coins, whose value was constantly fluctuating, caused great inconvenience to the trading community. In 1835 the East India Co. made the silver rupee of 180 grains troy weight, 11/12 fine, the standard throughout British India.

In the same year, by the same Act, gold ceased to be legal tender. The coinage of gold, however, continued, and by a proclamation issued in 1841 public treasuries were authorised to receive gold coins. Gold tended to accumulate in public treasuries, and the proclamation of 1841 had to be withdrawn in 1852.

The fall in the price of gold consequent upon the discoveries of gold in Australia and California in 1849 increased the demand for a gold currency.

Sir Charles Trevelyan supported this demand. The Secretary of State, however, was not in favour of making the sovereign legal tender, but he permitted public treasuries in 1864 to receive and pay out sovereigns and half sovereigns for ten and five rupees respectively; the rate was raised to Rs.10-8 and Rs. 5-4 in 1868. Soon after the price of silver began to fall and the controversy regarding the introduction of a gold currency ended.

The fall in the price of silver was probably due to the appreciation of gold—gold production between 1873 and 1893 declined, while the demand for gold for industrial and monetary purposes increased. The fall in the gold value of the rupee (*i*) increased the burden of the Home Charges, (*ii*) tended to check the investment of foreign capital in India, (*iii*) lowered the gold value of the salaries, paid in rupees, of the European employees of the Government, and (*iv*) made foreign trade a gamble in exchange.

The fall in the gold value of the rupee, by itself, should have subsidized exports and penalised imports. But between 1873 and 1895 imports increased more rapidly than exports. This was due to the heavy fall in gold prices in this period.

1893-1925. Attempts to stabilize the price of silver by international agreements having failed, the Government of India, on the advice of the Herschell Committee, closed the mints to the free coinage of silver in 1893. The idea was to raise exchange to 16d. and to stabilize it at that rate by 'starving the circulation.' After falling to 12 5/8*d.* in January 1895 exchange gradually rose to about 16d. in 1898. The Fowler Committee re-examined the whole question in 1898. It recommended the adoption by India of the gold standard 'with its normal accompaniment' a gold currency. The sovereign was to be made legal tender at Rs. 15 and a mint was to be opened in India for the coinage of gold. Profits on rupee coinage were to be credited to a special reserve, called the Gold Standard Reserve, which was to be utilised for the maintenance of exchange. The Fowler Committee rejected Mr. Lindsay's plan, the Gold Excange Standard.

Eventually, while the sovereign was made legal tender, no gold mint was established. Our currency system developed along the lines of the gold exchange system between 1907 and 1914.

An exchange crisis occurred in 1907-08 and in November of that year exchange fell below specie point. Exchange improved as soon as Government began to sell sterling bills on London and gave gold for export. Very little gold came out of ciculation for export in the crisis. The chief lesson taught by the crisis was that for the maintenance of exchange it was essential to maintain a strong gold reserve and to know how to use it; gold in circulation was of little use for the purpose.

The Chamberlain Commission (1913) found that "It would not be to India's advantage to encourage the use of gold in the internal circulation."

They recommended that Government should make a public notification of their intention to sell sterling bills in India at 1*s*. 3 29/32*d*. whenever asked to do so to the full extent of their resources. The stability of exchange was thus to be guaranteed.

The rise in the price of silver during the war put an end to the gold exchange system. The rupee ceased to be a token coin. The increase in the cost of production of rupees compelled the Secretary of State to raise the price of rupees. A contributory cause of the rise in exchange was the strong demand for rupees abroad owing to the heavy balances of trade in India's favour.

When a silver token ceases to be a token coin, it may be made a token coin again by (*i*) a reduction in the weight or fineness of its silver contents or (*ii*) raising its gold value. The Babington Smith Committee of 1919 recommended the latter course. Government attempted to stabilize the rupee at 2*s*. gold in 1920, and later at 2*s*. sterling. But the attempt failed, in spite of the sale of Reverse bills to the amount of £55,000,000 in 1920, sometimes at rates very much higher than the market rate. The fall in exchange in 1920 was due to the heavy fall in the price of silver, as the rise during the war was due to the rise in the price of silver. A contributory cause of the fall was the adverse balance of trade in 1919-20 and 1920-21.

Exchange continued to fall till 1922. It began to rise in 1923, and the average rate in the first 9 months of 1925 was 18*d*. gold. England returned to the gold standard in 1925.

The Gold Bullion Standard. The chief feature of the gold bullion standard (recommended by the Hilton Young Commission of 1925) is the convertibility of token money directly into gold bullion for all purposes—in theory. In actual practice the rupee will be convertible into gold for export only. The rates for the sale of gold by the Reserve Bank will be so fixed as to make it unprofitable to demand gold from the Bank except for monetary purposes. If the exchanges are stable, the Reserve Bank will not be called upon either to buy or to sell gold. In fact, the gold reserves of a Central bank are not meant to satisfy the non-monetary demand for gold.

High currency authorities of the country submitted a Memorandum to the Hilton Young Commission in which they drew attention to the main defects of the pre-war currency and exchange system. Some of these defects were removable: (*i*) the rupee was linked to sterling only and the system ceased to be a gold exchange system as soon as sterling depreciated, (*ii*) Government were under no statutory obligation to sell gold or gold exchange at a fixed rate at a time of exchange weakness, and (*iii*) the currency and banking reserves were controlled by different authorities. But there were two other defects which could be remedied only by the adoption of the gold bullion

or the gold currency standard: (1) the gold exchange system breaks down when the price of silver rises above the bullion par of the rupee, and (2) rupee circulation was not automatically reduced when Reverse bills were sold, but such decrease depended on the action of Government. It was argued in the Memorandum that the gold bullion standard was the ideal system, but that in India a full legal tender metallic currency was indispensable: "If therefore a gold currency is not introduced, defects in the Indian currency and exchange system must remain indefinitely." A practical scheme for the introduction of a gold currency standard by stages was outlined in the Memorandum. But the scheme was rejected by the Hilton Young Commission.

The 18d. Gold Rate. The Hilton Young Commission recommended the fixation of exchange at 18d. gold. The recommendation was given effect to in 1927. But, as is quite evident now, the rupee was considerably over-valued at this rate.

It is true that the gold value of Rs. 1500 at 16d. gold per rupee is equal to the gold value of Rs. 1333 at 18d. gold. But all values for the cultivator are not gold values (*e.g.*, the price of bullocks, the water-rates and the land revenue, payment for the services of villiage menials). The extra Rs. 167 mean greater purchasing power for the cultivator.

It was thought that at 18d. gold Indian prices and costs had become adjusted to world prices and costs. That was the main argument of the Hilton Young Commission. But the Commission made no study of price fluctuations in the case of individual commodities. The Commission confined their examination to a study of index numbers of prices. Their examination showed that "from October 1924 to September 1925 there was a rapid and violent downward movement of the rupee price level which was not the reflection of any similar movement in world prices." But world gold prices did not remain stationary during this period. Prices in the United States in Sept. 1925 were the same as in January. But in 12 countries of Europe (including the United Kingdom) out of 14 there was a fall in gold prices. The explanation of the fall is 'increasing economic stagnation in most of the European countries' in contrast to the favourable conjuncture in the United States. Prices had been rising in 1924, and the rise was partly speculative. The fall of prices in 1925 was in some measure due to the reaction against inflated prices, and mainly to increased production.

The downward movement of Indian prices was in sympathy with the world gold prices. In these circumstances all talk of adjustment of rupee prices to the 18d. gold rate was meaningless.

Prices continued to fall after 1925, and the astonishing thing is that when we left the gold standard on Sept. 21, 1931, there was no rise of prices corresponding to the depreciation of the rupee in terms of gold. Prices did rise at first, but they fell again.

It is admitted that England's return to the gold standard in 1925 was a mistake. We made a greater mistake in stabilizing the rupee at a rate higher than our pre-war gold parity.

At present India is under the sterling exchange standard, which will be turned into the gold exchange standard (or the gold bullion standard) when England returns to gold.

The £ is certain to be devalued. But it does not follow that devaluation that suits England must suit India. In currency matters we have been slavishly following England during the past 15 years. We have no currency policy of our own.

The Demand for the 16d. Ratio. The Government are determined to maintain the 18d. ratio. According to a Government communique (Dec. 16, 1938), 'a lowering in the ratio would do no good to any body except the moneyed and speculative interests.'

More fully, the official arguments against the lowering of the exchange ratio are the following:

(1) It is far from certain that the currencies of the world have been so stabilized as to justify the proposed step.

It is not suggested that the rupee should be immediately stabilized in relation to gold at 16d. (=4·27 grains of gold); world political and economic conditions are not stable enough to justify devaluation of the rupee in this sense. But there is nothing in the prevailing instability, whether political or economic, to prevent us from lowering the sterling value of the rupee, if such a course is otherwise considered desirable or necessary.

(2) It is doubtful whether devaluation would stimulate exports, or raise the prices of agricultural produce.

Assuming that prices remain as they are, a lower rate of exchange means a higher value in rupees for the same quantity of goods sold abroad. Unless other countries raise their tariff walls against us, a lower ratio would therefore tend to stimulate exports and increase our power of international competition.

(3) The immediate prejudicial results are certain, *viz.*:

(*a*) The consumer will suffer from a rise in the prices of imported goods, particularly cloth.

The sufferers will chiefly be town-dwellers and the middle-classes. People in villages do not largely consume imported goods. In regard to cloth, imports are of very little importance—they are about 10 per cent of the total consumption of cloth.

(*b*) sterling liabilities will increase, in the case of the Punjab by 7 lakhs of rupees.

Assuming that the present value of exports from the Punjab is £9,000,000 (it is probably more than this), and assuming that sterling

prices remain unchanged, the 16d. ratio would mean a gain of 150 lakhs to the Punjab. A great part of this increase would flow into the pockets of the cultivators. In any case the gain of the Punjab cultivator from a lower ratio would far exceed the loss to the Punjab Government. The same is true of the country generally.

(c) There would be much speculation in exchange with consequent harm to trade and industry.

There is doubt and uncertainty about exchange now . Gold exports are dwindling and unless exports of merchandise increase miraculously it would be difficult to maintain the present rate, except by adding to the sterling debt and the dissipation of reserves. It would be better to end doubt and uncertainty by lowering exchange. Speculators would be active temporarily, but once exchange has been stabilized at 16d., normal conditions would be restored.

It cannot be denied that the rupee is over-valued. Present stability is spurious stability.

The 16d. ratio would increase the burden of the Home Charges by about 7 crores. The gain to the country would far exceed that sum, but the Government of India are naturally more concerned about their own loss.

An attempt should be made to reduce the Home Charges so that reversion to 16d. does not add much to their cost.

Attention may also be drawn to the action taken by certain countries. Australia and New Zealand have kept their exchanges about 20 per cent below sterling level and the French Franc stands lower today (177 to the £) than it did before England went off the gold standard 124 (to the £).

Chapter XVIII.—Banking, Page 476

The Indian money market consists of indigenous as well as foreign elements. The village money lender, the private banker in towns and shroffs in the Presidency towns form the foundation of the Indian credit system. On this foundation there has been erected a Western superstructure of credit. credit.

The Exchange Banks finance our export and import trade, besides doing ordinary banking business. They collect on maturity the bills drawn on Indian importers for goods purchased by them. With the proceeds of these bills and the deposits received by them in India, the Exchange Banks purchase the exporters' bills offered to them. They add to their funds by selling sterling to the Government.

The growth if Indian joint-stock banks has been rapid. But still the number of banks is inadequate for our needs.

The joint-stock banks used to keep very small cash reserves. The crisis of 1913 was due to lack of experience and partly to the attempt to finance industries with short-term deposits.

Directors of Indian banks have yet to learn that banks exist to assist trade and industry and not to finance the Directors and their concerns.

The village mahajan finances (*i*) agricultural operations, which is financing industry and (*ii*) trade, which is a commercial function. Hundis are used in the internal trade of India. A considerable portion of the business of Indian banks consists in making advances against Hundis. The shroffs in the Presidency towns purchase Hundis on their own account.

The Reserve Bank. Before the constitution of the Reserve Bank the Imperial Bank of India served as a kind of central bank. The Imperial Bank was founded in 1921 by amalgamating the three Presidency Banks.

The Reserve Bank commenced operations from 1st April 1935. The Bank is a shareholders' bank (the country would have preferred a State Bank), with a share capital of 5 crores, divided into fully paid-up shares of Rs. 100 each. The Central Board consists of a Governor and 2 Deputy Governors appointed by the Governor General in Council, 4 Directors nominated by the Governor General in Council, 8 Directors elected on behalf of the shareholders, and one Government official nominated by the Governor General in Council.

The Bank may purchase, sell and re-discount bills of exchange and promissory notes (*a*) drawn and payable in India, maturing within 90 days and arising out of *bona fide* commercial or trade transaction, (*b*) drawn and payable in India, maturing within 9 months, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and (*c*) drawn and payable in India, issued or drawn for the purpose of holding or trading in the securities of the Government of India, or a local Government, or specified securities of States. In each case one of the signatures must be that of a 'scheduled' bank.

The Bank may not (1) engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking, (2) purchase its own shares or the shares of any other bank or company or grant loans upon the security of any such shares, (3) advance money on mortgage of immovable property, (4) make unsecured loans or advances, (5) draw or accept bills payable otherwise than on demand, and (6) allow interest on deposits or current accounts.

The Bank has been entrusted with the management of public debt and with the issue of new loans. It has taken over the note issue from the Government of India. The Issue Department is wholly distinct from the

Banking Department. Of the total amount of assets of the Issue Department, 40 per cent shall consist of gold coin, gold bullion or sterling securities. Of the assets in the form of gold or gold coin, 85 per cent shall be held in British India. The reserve requirements may be suspended temporarily on the payment of a tax by the Bank upon the amount by which the holding of gold coin, gold bullion and sterling securities is reduced below the prescribed minimum.

Every 'scheduled' bank shall maintain with the Reserve Bank a balance the amount of which shall not any day be less than 5 per cent of its demand liabilities and 2 per cent of its time liabilities in India. As a compensation for this obligation imposed on 'scheduled' banks, the Reserve Bank will rediscount bills of exchange and promissory notes only for the 'scheduled' banks.

The Bank will ordinarily only rediscount bills and promissory notes, but the power of direct discount, or open market operations, has not been withheld from it.

The rediscount facilities which the Bank provides are expected to impart a considerable measure of elesticity to the Indian credit system. In addition, the Bank is authorised to make loans and advances repayable on demand, or, within 90 days against the security of promissory notes of any 'scheduled' bank or provincial co-operative bank on certain conditions.

Indian joint-stock banks hold comparatively a small amount of bills. To encourage the use of bills the Banking Enquiry Committee recommended, among other things, a lowering of the stamp duty on bills, and standardization of customs governing the Hundis.

In regard to exchange, section 40 of the Reserve Bank Act imposes an obligation on the Reserve Bank to sell sterling at a rate not below 1s. 5 49/64d. per rupee. It is the duty of the Reserve Bank to prevent exchange from falling below the lower specie point.

Industrial Banking. In European countries there is a close relation between banks and industries. In India there are no industrial banks at all; the commercial banks do not provide finance for block capital, as a rule they finance trade. The banks do not possess technical knowledge necessary for valuing the assets of an industrial concern, and with their short-term deposits it is difficult for them to finance long-term industrial requirements. The Central Banking Enquiry Committee recommended the establishment in each province of a Provincial Industrial Corporation, with capital initially or permanently supplied by the Provincial Government. An all-India Corporation was also to be established to co-ordinate the work of Provincial Industrial Corporations.

Industries are at present largely financed through the managing agency system. The managing agents raise capital from their friends and others,

attract private deposits and take loans and cash credits from banks. In certain Provinces the system has worked well, but it is not free from defects. The Banking Enquiry Committee suggested that direct relations should be established between industrial companies and commercial banks.

External capital. No precise figures are available showing the total amount of foreign capital invested in India. The paid-up capital of companies registered outside India but working in India in 1934-35 was £586,000,000. Probably the total amount of foreign capital in India exceeds 1000 crores of rupees.

Under the existing political and economic conditions foreign capital cannot be kept out. The present policy is to make no discrimination between Indian and forign capital except when Government grants concessions to an industry; when definite pecuniary assistance, such as a bounty is granted to any particular undertaking, it is required that (1) reasonable facilities should be provided for the training of Indians, and (2) in the case of a public company, that (i) it should be formed and registered under the Indian Companies Act of 1913, (ii) it should have a rupee capital, and (iii) a certain proportion of the Directors must be Indian.

CHAPTER XIX.—AGRICULTURAL CREDIT, PAGE 500

The establishment of agricultural banks was recommended by the Famine Commission of 1901. The *sowcar* tended to grossly abuse his power.

The Co-operative Credit Societies Act was passed in 1904 and amended in 1912. The amended Act covered Co-operative societies established for production, distribution or other objects (*i.e.*, non-credit societies), divided societies into those with limited and those with unlimited liability (agricultural societies as a general rule were to be with unlimited liability), permitted certain unlimited societies to distribute profits and made provision for the higher finance of the movement.

Our first registrar sought to promote two types of societies, the 'money-deposit type' which had no share capital but operated with fixed deposits, and the 'Mianwali type,' whose capital was raised by grain subscriptions. Both these types had eventually to be discarded. The type of society which became popular in the Punjab was one adapted from the Italian system: members become shareholders by payment of 10 compulsory annual instalments. No dividends are declared for 10 years when three-quarters of the profits are divided among the shareholders, the remaining fourth being transferred to the reserve fund.

Since 1904 the co-operative movement has made remarkable progress in

the Punjab and India as a whole, but, so far, co-operation has touched only the fringe of the problem of indebtedness.

The Punjab leads the major Provinces, but even in the Punjab about 14 per cent of the rural population is affected by the co-operative movement.

Total loans and loan per member in the Punjab fell from 237 lakhs and Rs. 57 respectively in 1927-28 to 79 lakhs and Rs. 16 in 1932-33; in 1936-37 there was an increase in total loans to 97 lakhs and in loan per member to Rs. 19. These figures suggest that even co-operators are compelled to borrow from the mahajan.

Very useful work is being done by the co-operative department in the consolidation of holdings. The total area consolidated in the whole Province up to 31st July 1937 was about 800,000 acres. The advantages of consolidation are recognized and there is a brisk demand for consolidation even in villages where no propaganda has been carried on.

The Punjab possesses 12 land mortgage banks, but their work has come to a standstill, 'their only activities being the collection of their dues.' "Unless," says the Registrar, "the rise in values comes soon, the banks may have to face considerable losses."

The chief objects of land mortgage banks are (1) the redemption of land and houses of agriculturists, and the liquidation of old debts, (2) the improvement of land and methods of cultivation and the building of houses of agriculturists, and (3) the purchase of land in special cases.

Loans are granted for longer periods and of larger amounts than those made by ordinary co-operative credit societies.

In the case of land mortgage banks, as in that of ordinary credit societies, the problem of overdues is a serious one. The Reserve Bank insists on separating irrecoverable or frozen debt from the new business of societies. But co-operative societies are still waiting for 'the small turn of the wheel' which would enable borrowers to repay partially or in full what are regarded as 'bad debts.'

Reserve Bank Report on Agricultural Credit. A special department of the Reserve Bank is concerned with rural credit. A valuable report issued by this department in 1937 discussed the financing of agriculture. Drawing attention to the crushing burden of rural debt, the Report suggested that the debt must be reduced either in respect of the capital amount or the rate of interest, or both. Government should come to the assistance of both the debtor and the creditor. If the voluntary adjustment of capital and interest is supplemented by some form of direct or indirect Government assistance as regards payment, creditors generally will be prepared to accept very considerable reductions.

The Report made it clear that agricultural paper which represented the renewal of bad loans, coming through co-operative banks, would not be

discounted by the Reserve Bank. Agricultural debts must be so reduced that the agriculturist can pay them out of the profits of agriculture within, say, 20 years. The irrecoverable portion will have to be written off.

The following suggestions were made in the Report as to how co-operative societies should work in the future: (1) loans must be limited to cultivation finance, (2) there should be no over-financing or over-lending, (3) Loans which cannot be repaid in one year (e.g., for replacement of cattle) should not extend to say more than two years, and provision should be made for their repayment in equal instalments, (4) all loans must be issued in instalments as money is required, not in one lump sum, (5) immediate steps must be taken to recover loans due, unless there is a crop failure.

Farm Relief in Other Countries. In India generally, and particularly in the Punjab, attempts are being made to relieve agricultural indebtedness without spending a pie of Government money, or almost wholly at the cost of the creditor. In other countries 'the plans for the adjustment of debts have involved the Governments in financial operations often on a large scale'.

Sig. Costanzo divides the States into three groups: (1) States that have taken radical measures aiming directly at relieving the farmers from the burden of their debts, (2) States that have endeavoured to assist debtors without affecting the interests of creditors, and (3) States that have helped the debtors mainly by indirect means without violating the principle of respect for obligations incurred.

Radical measures 'have usually had results contrary to what was hoped from them.' Sig. Costanzo concludes that the results of drastic public interference in debtor and creditor relations are 'regrettable;' it is advisable to assist debtors 'without too greatly sacrificing the creditors'. He also considers it essential 'to go to the root of the evil', that is to raise agricultural prices to a remunerative level.

The following is a summary of measures of farm relief in different countries:

1. Reduction in capital debts (Bulgaria, Rumania, Yugoslavia, Brazil).

(2) Reduction in interest (Germany, Italy, Switzerland and other countries).

(3) Postponement of debts (Poland and many countries).

(4) Conversion of short-term into long-term debts (Italy, Estonia and other countries).

(5) Payment by instalments spread over a long term of years (many countries).

(6) Protection against distraint (Grmany and other countries).

(7) State assistance in the from of loans (Italy, Denmark, Sweden Latvia, South Africa, Australia, United States).

The Union of South Africa spent £33,000,000, on farm relief (which

included the writing off the loans due by farmers to Co-operative credit societies). The Government of the United States spent much more. The Federal Land Banks in the United States issued farm loan bonds for the purpose of making new loans, or for purchasing mortgages, or for exchanging bonds for mortgages. Considerable sums of money were further provided by the State for re-financing any indebtedness of the farmer, for enabling him to redeem farm property, and other purposes.

In the Bhavnagar State, the State lent money at 4 per cent to the cultivators to enable them to pay off the debts settled by Conciliation Boards.

The Central Banking Enquiry Committee suggested the following scheme for dealing with indebtedness:

(1) Debt reduction on a voluntary basis, the reduced amount to be paid in cash in a lump sum or by equated payments spread over a number of years.

(2) Co-operative credit societies to be utilized as the agency for the payment to the lender of the settled debt.

(3) The outstanding part of the settled debt to be treated as a deposit by the lender with the co-operative society, which will be paid to him in settled annual instalments.

(4) Government to assist co-operative societies with necessary funds for payment of the settled amount in cash.

(5) In cases where a society is subjected to loss on account of the failure of the borrower to pay his instalments, the Government should come to the assistance of the society.

Relief from indebtedness is only one aspect of the problem of farm relief. The small land-holder deserves relief from the heavy burden of taxation and the tenant cultivator from the heavy exactions of the non-working landlord.

CHAPTER XX.—AGRARIAN LEGISLATION OF THE PUNJAB GOVERNMENT, PAGE 533

This comprises the following Acts:

Regulation of Accounts Act 1930. Under this Act it is the duty of the creditor to record and maintain accounts in the manner prescribed by Government.

The Relief of Indebtedness Act, 1934. This Act (i) simplifies insolvency procedure, (ii) prescribes the maximum rates of

interest (on secured loans 12 per cent simple interest, and on unsecured loans 18¾ per cent simple interest), (iii) makes provision for the setting up of Debt Conciliation Boards, (iv) applies the principle of *damdupat* to agricultural loans.

Debtors' Protection Act, 1936. Under this Act the Deputy Commissioner is to determine how much of the land of a judgment debtor is to be attached and alienated and for what period, not exceeding 20 years.

The Punjab Agricultural Produce Marketing Act, 1938. This Act will create regulated markets for the sale of agricultural produce in which only licensed brokers, weighmen, measurers, surveyors, warehousemen and others will be allowed to work. Every market will be administered by a market committee. Two-thirds of the members of a market committee will be selected by the growers of the district.

Marketing legislation was long over-due. This is on account of the multiplicity of marketing functionaries and the unregulated state of their charges. The marketing charges are, *arhat, dalali, karda* (excess weight deliverable by the seller), *palledari, dharmda* (for charity), and other miscellaneous payments such as *bazar chaudhri, shagirdi, batta, muddat* etc.

In other parts of India regulated markets have been established under the Bombay Cotton Markets Act, 1927 and Hyderabad Agricultural Markets Act, 1929-30.

The 'Golden Bills.' This term is applied in official circles in the Punjab to four agrarian measures which have been placed on the Statute book:

(1) *Amendment II to the Alienation of Land Act, 1901* declares *benami* transactions invalid. The person dispossessed can claim compensation for improvements, but not exceeding the value of the original transaction.

(2) *Amendment III to the Alienation of Land Act* prevents the acquisition of the land of the debtor by the zamindar creditor in satisfaction of his claim.

(3) *The Registration of Money-lenders' Act* requires all money-lenders to get themselves registered and to hold a license. A license may be cancelled for a specified period for specific reasons of fraud or dishonesty.

(4) *The Restitution of Mortgaged Lands Act* extinguishes mortgages effected before the commencement of the Alienation of Land Act.

The combined effect of these measures will be to restrict the supply of credit from non-agricultural sources and to hasten the process of 'swallowing up' of the smaller by the bigger agriculturists.

The statement made by the Punjab Premier in the Assembly that in certain districts of the Punjab, where there are the biggest zamindars, the smaller fish are swallowing up the bigger fish is without foundation. It is, in fact, nonsensical.

The investigations made by the Board of Economic Inquiry, Punjab, show that the expropriation of smaller owners is going on unchecked. Of course small owners will be found selling to small owners if small owners are defined as those owing up to 100 or 300 acres of land. The majority of landlords in the Punjab own less than 5 acres.

Further light on the expropriation of small owners is thrown by the rapid increase, specially since 1930-31, in transfers of land and by the increase in the percentage of the total area cultivated by tenants.

By selling his holding the small owner is set free for 'employment elsewhere.' But this 'employment elsewhere' is nowhere to be found.

Landlordism. For no particular services rendered to the land or his tenants, the landlord claims an excessive share in the produce of the land. Under existing conditions the tenant works almost entirely for the benefit of the landlord.

The landlord as an intermediary between the State and the tiller of the soil is largely a product of British rule. There were no such intermediaries under Akbar, and under the Sikhs, 'the idea of a middleman intercepting part of the collection was not for a moment entertained' (Steedman).

The State having called useless intermediaries into existence, may, at least, limit their demands.

CHAPTER XXI.—AGRARIAN LEGISLATION, OTHER PROVINCES, PAGE 560

The caste-socialism of the Punjab Government turns a blind eye to the exploitation of tenants by the non-working landlord. But, as an exploiter, the non-working landlord is a greater evil than the money-lender.

Important legislation has been enacted in other Provinces, particularly Bihar and U. P., to safeguard the rights of tenants.

Bihar: The agrarian measures relating to the reform of the tenancy are: (1) The Bihar Tenancy (Amendment) Act, 1937, (2) The

Chotta Nagpur Tenancy (Amendment) Act, 1938, (3) The Bihar Tenancy (Amendment) Act, 1938, (4) The Champaran Agrarian (Amendment) Act, 1938 and (5) The Bihar Restoration of Bakasht Lands and Reduction of Arrears of Rent Act, 1938. The tenant has been granted considerable relief through (a) rent reduction, (b) the acquisition of unrestricted right of transfer of occupancy holdings, (c) the grant of complete immunity against arrest and detention in civil prison in execution of a decree for rent and (d) restoration under certain conditions of land sold for arrears of rent.

United Provinces: A very comprehensive tenancy bill was introduced in the U. P. Assembly by Government in 1938. It contains provisions regarding *sir* (home-farm); devolution, transfer, extinction, merger, division and exchange of tenancies; determination and modification of rent; distraint; ejectment; arrears of revenue; and numerous other matters. According to landlords the bill would encourage tenants not to pay the rents due. The strongest opposition is to the clauses relating to *sir*. The bill seriously curtails the *sir* rights of landlords. *Sir* is a matter of considerable importance in U. P. It is not so important in the Punjab because landlords in the Punjab are not a distinct body, as in the United Provinces, from the body of tenant cultivators.

Madras: The Madras Agricultural Relief Act, 1938, makes provision for the scaling down of debts incurred before 1st Oct. 1932, and also for the total remission of arrears of rent under certain conditions.

Bombay: A Government bill of 1938 seeks to protect the interests of tenants as against landlords. A class of 'protected tenants' is to be created. The rent paid by such a tenant shall be 'reasonable'; facilities will also be given in regard to the payment of arrears of rent. As for tenants generally, it is proposed to abolish all cesses, taxes or other payments or services exacted by landlords other than the rent lawfully due.

Chapter XXII.—Taxation, Page 577

The taxable capacity of a people is found by deducting from their total income from all sources the minimum amount required for consumption, for replacing old capital, and for new additions of capital. Minimum consumption does not mean bare subsistence; it must be interpreted as consumption necessary for efficiency.

It is almost impossible to make international comparisons of tax burdens, for the things we compare are not the same. In the case of England and

India, (i) economic organisations of the two countries are different, (ii) the systems of taxation are different, (iii) the levels of income and prosperity are not the same—and this vitally affects tax-bearing power. Finally the burden of taxation also depends on such factors as (a) the objects on which the income of the State is largely spent and (b) whether the proceeds of taxation are spent in the country in which the taxes are raised or a considerable proportion is spent outside the country, as in the case of India.

There is also a further difficulty in the case of India—reliable data on the basis of which national income may be accurately estimated, do not exist.

The Income-tax. The substitution of the 'slab' for the 'step' system is an important measure of reform. Under the 'slab' system the first slice of income, Rs. 1,500 will be tax-free; on the next three successive slices of Rs. 3,500, 5,000 and 5,000 the rate of tax will be, respectively, 9 pies, 15 pies and 2 annas per rupee. The balance will be taxed at 2½ annas per rupee. As a result of the introduction of this system the percentage of income taken will rise gradually throughout the whole range of incomes taxed (not by steps as under the 'step' system) and the upper grades of income will pay a higher percentage of income as tax than under the 'step' system.

In regard to the taxation of foreign income of residents in British India, the accrual basis has been substituted for the old remittance basis.

Rural Taxation. Water-Rates. The canals are a source of considerable net revenue to the Punjab Government.

The water-rates are a fixed and inelastic charge. Under existing conditions the charge is excessively high.

The water-rates are frankly levied as a tax. It is argued that not only those who take canal water (34 per cent of the population) but the rest of the population is entitled to benefit from the canals. But it does benefit from them. If the canals ceased to flow, no section of the population of the Punjab could escape serious injury.

The charge for water is at present determined with reference to the financial needs of the Province. This is a wrong principle. The water rates must be related to the degree of profitableness of agriculture at the present time.

The Land Revenue. Is the land revenue a tax or a rent? Indian rulers recognised the right of property in land. The land revenue under Hindu or Muhammadan Kings was not a rent paid to the State-Landlord but a tax. But as a tax it was so heavy as to be equal to an extreme rent. Our British rulers mistook it for rent. The Indian Taxation Enquiry Committee (1924-25) rejected the theory of State Landlordism.

The Taxation Enquiry Committee drew attention to the serious defects of the land revenue system: (*i*) the incidence of the land revenue on

different holdings varies greatly, (*ii*) there is no definite basis of assessment: it may be rentals or 'net assets', (*iii*) the rentals may be customary, controlled or assumed; the net assets may include or exclude the subsistence of the cultivator, (*iv*) viewed as a scheme of taxation, the land revenue 'is not only not progressive but actually tends in the opposite direction'; (*v*) only a very small proportion of the tax collected from the cultivator is used for rural development—in European countries the land tax is largely used for local purposes.

The Taxation Enquiry Committee made two definite suggestions, (1) the standard rate of assessment should not exceed 25 per cent of 'annual value', and (2) 'annual value' was to be interpreted to mean 'the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise'.

Land Revenue in the Punjab. In the Punjab the land revenue is treated, not as a tax on agricultural income but as the State's share in the net profits of cultivation, or 'net assets'. Net assets are defined as landlords' net assets, of which one-fourth is the State's share.

The calculation of the State's share on the kind rent basis is as follows. From the total estimated value of the gross produce of an assessment circle (assumed to be held by landlords), first menials' dues are deducted. Of what is left one-half is the landlords' share. From the landlords' share two further deductions are made, half water-rates and half cost of seed (Lyallpur District). To what is left half land revenue, *malikana* and cesses are added (since these charges are paid half and half by landlord and tenent). The resulting sum is true landlords' net assets. The incidence per cultivated area is found by dividing the total land revenue (one-fourth of landlords' net assets thus calculated) by the figure of cultivated area.

According to law the average rate of incidence on the cultivated area shall not exceed the rate of incidence imposed at the last settlement by more than 25 per cent.

The definition of net assets as landlords' net assets assumes that peasant proprietors' net assets are identical with landlords' net assets. That would be so if the share left to tenants was sufficient to defray the tenants' cost of cultivation, including their wages and the normal return for enterprise. Under existing conditions this is emphatically not true. Peasant proprietors' net assets are identical with the economic rent of land, but landlords' net assets contain the tenants' subsistence. Landlords' net assets are therefore not the true economic rent of land. They contain a large element of loot and Government's land revenue is a share of this loot. It is unjust to tax peasant proprietors at a rate derived from landlords' net assets.

Net assets should be defined as profits on direct cultivation. If net assets were so defined, the peasant proprietor's wages and normal return for enterprise would have to be included in costs of cultivation. Costs would absorb about 75-80 per cent of the value of gross produce. The Lyallpur assessment shows that under the indirect definition of net assets the allowance for costs is 56 per cent of the value of gross produce.

The Sliding Scale. Under the old system revenue rates were fixed in accordance with average prices of agricultural produce over a long period (the preceding 20 years) and it was assumed that there would be no large variation in prices throughout the period of the settlement. Under this system the peasant stood to gain when the average level of prices rose above the prices assumed for assessment purposes .

The recent heavy fall of prices made the old system unworkable. For it was found that the average prices of the preceding 20 years were 55 per cent higher than actual prices at the recent assessment of the Lyallpur district.

Under the sliding scale the standard demand is still calculated according to the assumed commutation prices which are much higher than actual prices, but remissions will be granted every year. In granting remissions three factors will be taken into account, (*i*) the percentage of the total matured area under each important crop, (*ii*) the average yield per acre of each of those crops, and (*iii*) the commutation price assumed for each of those crops. From year to year there is not likely to be any material change in the first two factors and thus the amount of the remission will be solely determined by the percentage fall of prices as compared with the commutation prices.

The sliding scale fully safeguards Government land revenue receipts. But it will work against the peasant proprietor. It is in fact a clever device for taxing the subsistence of the peasant proprietor while deceiving him with limitless paper remissions. The objections to the sliding scale from the point of view of the peasant proprietor are the following: (1) The sliding scale assumes that the zamindar always enjoys net assets, provided that the fall in prices is not exactly 100 per cent. But if the price of wheat, for example, fell by 80 per cent, would the cultivation of wheat show any net assets at all? (2) When prices fall heavily, net assets may wholly vanish. This is because costs never fall in the same proportion as prices. Government know it very well. The water-rates are never reduced according to the fall in prices.

The result of the comparative inelasticity of costs is that net assets fall in a heavier proportion than prices. Unless remissions are granted according to the fall in net assets (*i.e.*, after taking the variation in costs into account), the sliding scale is no boon to the working peasant. When prices fall, the peasant proprietor, after enjoying heavy remissions (according to the difference

between the commutation prices and actual prices) will ordinarily pay substantially more than 25 per cent of his net assets, and when prices fall heavily, he will pay more than 100 per cent of his net assets.

Further, and this is the most important objection to the sliding scale, the calculation of the standard demand in the sliding scale is based, not on actual but prospective net assets. The sliding scale tears up the Government of India's famous Resolution on Land Revenue Policy of 1902 as 'a scrap of paper'.

Chapter XXIII.—Indian Finance, Page 618

The study of Indian finance since 1913-14 may be divided into three periods: (1) Pre-Reform, 1913-14 to 1920-21, (2) Reforms Period, 1921-22 to 1935-36 and (3) Era of Provincial Autonomy since 1936-37.

Pre-Reform Finance. This includes the War period. Between 1913-14 and 1920-21 Indian revenue increased from 128 crores to 215 crores (68%) and expenditure from 124 crores to 241 crores (94%).

There was little increase in land revenue receipts. But the Customs revenue increased from 11 1/3 crores to 32 crores and the yield of the Income-Tax from 3 crores to over 22 crores in this period. Military expenditure increased from about 30 crores to 87 ½ crores. The greater part of the increase in military expenditure took place after the Great War had ended.

Reforms Period, 1921-22 to 1935-36. The Montague-Chelmsford Reforms led to important financial changes in the relations between the Centre and the Provinces. The divided heads of revenue and expenditure were abolished. Land revenue, irrigation, stamps and excise were made wholly Provincial and the income-tax wholly Imperial. As a result of this change a large deficit in the Indian budget was anticipated. This was made good by Provincial contributions (983 lakhs in 1921-22), which were gradually reduced and finally abolished in 1928-29.

The Reforms period began inauspiciously. The deficits, in fact, had started much earlier, in 1918-19, and ended only with the year 1923-24. The deficits were met by the issue of fiduciary currency. A Retrenchment Committee appointed in 1922 recommended heavy cuts in expenditure, and there were additions to taxation. A surplus was realised in 1923-24 and thereafter, till the advent of the trade depression, there were only minor changes in the tax system. The financial situation before the trade depres-

sion could be described as eminently satisfactory. Financial stability had been attained in spite of heavy sacrifice of revenue on the part of the Government of India (cotton excise 1¾ crores, opium 1½ crores, import duty on machinery 85 lakhs, and Provincial Contributions about 10 crores).

The effects of the trade depression were felt in the budgets for 1929-30 and 1930-31, but the full effects became apparent only at the end of Sept. 1931, when a supplementary budget, covering the whole year 1932-33, and proposing heavy additions to the burden of taxation, had to be introduced. Financial stability was regained and the budgets for 1933-34, 1934-35 and 1935-36 were balanced with only minor changes in the tax system.

Era of Provincial Atonomy since 1936-37. The financial situation again became 'disquieting'. For 1936-37 a surplus of 205 lakhs was estimated, but the revised estimates showed a deficit of 197 lakhs. A deficit was anticipated also in 1937-38. The 'disquieting' factors were three: (*i*) the restriction of rural credit caused by indebtedness, (*ii*) increase of silver imports at the cost of imports of goods subject to a higher rate of duty and (*iii*) diminishing returns from the Customs tariff. Still the Finance Member saw no reason 'why the Niemeyer prognostications should not be realised in the long run'. The Niemeyer programme could be fulfilled by a modest addition to the resources of the Centre of Rs. 1½ to Rs. 1¾ crores. This money was found by increasing the sugar excise and raising the import duty on silver from 2 annas to 7 annas per oz.

The distribution of income-tax receipts under the Niemeyer Award began in 1937-38. There was no addition to tax-burdens in 1938-39. In the budget for 1939-40 increased revenue was obtained by doubling the import duty on raw cotton and the substitution of the 'slab' system for the 'step' system in income-taxation.

Chapter XXIV.—Provincial Finance, Page 639

Sir Otto Niemeyer reviewed 'the present and prospective budgetary position' of the Central and Provincial Governments before the inauguration of Provincial Autonomy. On the whole he took a favourable view of the financial situation. Given prudent management of finances, he thought that adequate arrangements could be made to meet the financial implications of the new constitution.

Certain Provinces needed assistance. Irrespective of the allocation of taxes on income, Sir Otto recommended assistance to the Provinces amounting to 450 lakhs annually. The separation of Sind benefited Bombay to the extent of about 90 lakhs annually; by the separation of Orissa, Madras

obtained annual relief amounting to 20 lakhs and Bihar about 8 lakhs. Further, Sir Otto recommended the cancellation of all debt contracted with the Centre, prior to 1st April 1936, of the following Provinces: Bengal, Bihar, Assam, N.-W. F. P. and Orissa. In the case of C. P. about 2 crores of pre-Reform debt was cancelled. The jute-producing Provinces were already receiving 50 per cent of the net produce of the Jute Export Duty. Sir Otto recommended an increase of 12½ in their share.

The Income-Tax. Of the total receipts amounting to about 16 crores in 1936-37 from all forms of income-tax (including Corporation Tax) Sir Otto fixed 12 crores as the amount divisible between the Centre and the Provinces. Of this 6 crores is to go to the Provinces, but for five years the Centre may retain in any year out of the 50 per cent share of the divisible income-tax receipts the whole or such sum as is necessary to bring the 50 per cent share accruing to the Centre, together with any General Budget receipts from the Railways, up to 13 crores, whichever is less. The distribution of the income-tax among the Provinces has begun.

The Punjab was gravely dissatisfied with the Niemeyer Award. The Punjab Government calculated that out of recent and immediate relief amounting to 822 lakhs, the share of the Punjab was 1·7 lakhs, or one-fifth of one per cent; out of a total relief estimated at 14,22 lakhs at the end of ten years, the Punjab would get 49·7 lakhs, or 3·5 per cent.

The Punjab vigorously protested against the Award, but without avail.

Working of Provincial Autonomy. The general conclusions on the working of Provincial Autonomy may be summarised as follows:

1. In a technical sense the aim of the Niemeyer Report and Award has been achieved. The state of chronic defecit in which certain Provinces had fallen has been ended; financial stability in the case of all Provinces attained; their resources have materially increased, and they have started their career as autonomous entities on an 'even keel'.

2. There is no major Province in which increased spending power is not being utilised for the expansion of constructive, nation-building activities. This is true both of the Congress and non-Congress Provinces. In every Province there is a keen desire to promote the well-being of the rural masses and to augment the sources of wealth-production in order to increase the income of the people. This task is being attempted in each Province within the limits of the resources of the Province.

3. But very little has been done to reduce the burden of rural taxation. The remissions in land revenue, where they have been granted, are inadequate. It is remarkable that in spite of the heavy fall of prices since 1928-29, which has made cultivation over a large part of the country unprofitable, the total amount of land revenue realised in the Provinces at

the present time is about the same as in the pre-depression year 1928-29 (over 27 crores).

4. While the attempt to increase the income of the people by the improvement of agriculture and the marketing of agricultural produce deserves all praise, the main source of the agriculturist's income is the prices at which his crops are sold, and prices are beyond the control of Provincial Governments.

5. Cottage industries are being promoted in all Provinces, but they have little chance of survival in competition with machine industries. The development of factory industries depends on conditions determined by the Government of India.

6. The problem of indebtedness of the peasantry remains unsolved. The action taken in certain Provinces, *e.g.* the Punjab, is tending to destroy the foundations of rural credit.

7. There is no Province which could not usefully increase its expenditure on nation-building activities, in relieving indebtedness, and in reducing the burden of rural taxation. But no important new sources of revenue have been discovered. The main existing sources of Provincial revenues are largely rigid and inelastic.

8. Expenditure, like revenue, is largely inelastic—the scope for retrenchments being very restricted.

9. Democracy has both a pleasant and an unpleasant aspect. Provincial Autonomy in certain Provinces is a direct cause of growing communal tension. The cost of legislative bodies has materially increased. What the Provinces require is cheaper administration. So far as the good of the people is concerned, it is doubtful if the present Unionist or a future Congress Government in the Punjab, under the existing economic system, would be able to do more for the people in the next fifty or hundred years than what the irresponsible bureaucratic administration achieved in 30 years in pre-Reform days. The only satisfaction that we now have is that we are governing ourselves. But it is government under conditions which bar real progress.

PART III

CRISIS RECOVERY PLANNING

CHAPTER XII

INDIAN PRICES

The history of Indian prices since 1861 divides itself into five clearly-defined periods:

1861—1905. Gradual rise of prices.

1905—1914. Rapid rise of prices.

1914—1920. Inflationary rise of prices.

1920—1929. Deflationary fall of prices.

Since 1929. Heavy fall of prices owing to world depression.

PRICES, 1861—1905

The fluctuations of prices before 1905 show the effect on our agricultural economy of the linking together of distant parts of India by the railway and of Indian with foreign ports.

As early as 1865 passengers and goods could be booked through between Amritsar and Karachi. Through communication between the Punjab and Calcutta and the Punjab and Bombay was established in 1870.

The reader is referred to charts showing annual fluctuations in the price of wheat and rice, and the trend shown by means of the smoothed curve. No mistake should be made in the interpretation of a smoothed curve. The rise or fall of a smoothed curve in any year does not mean that the price began to rise or fall precisely in that year. For example, the ten-yearly moving average for rice (centred by means of a two yearly moving average) rose to its highest point (348) in the year 1924; thereafter it fell continuously till 1928. But the actual price of rice rose from 335 in 1924 to 368 in 1927. The moving average set down against any year does not indicate the level of the price in that year, since it is an average of price indices for a number of years.

There are two chief characteristics of price fluctuations in the pre-railway era: (*a*) fluctuations of prices from year to year were not infrequently great and violent, and (*b*) differences between prices in different places were very often considerable.

In the town of Haripur Hazara the price of wheat in 1852 was a little less than 8 annas a maund; in 1853 it rose to a rupee. In 1860, in the same place, the price was 12 annas a maund, and in the following year 2 rupees.

Prices depended more or less on local production. Prices rose sharply in a year of scarcity and fell heavily in a time of plenty.

Pakpattan, Dipalpur and Hujra are in the same District (Montgomery), but in the year 1849 wheat sold at 42 seers per rupee in Pakpattan while the average quantity obtainable for a rupee in Hujra and Dipalpur was 23½ seers.

Differences between prices in more distant places were, as might be expected, still more remarkable.

The Export Trade

The influence of the export trade in keeping up prices is referred to in several Punjab Administration Reports of this period. The earliest reference is in the Administration Report for 1865-66, where the "steady increase" in the price of wheat is ascribed to increased demand and "the opening out of new markets."

The Punjab Administration Report for 1871-72 thus comments on the connection between prices in the Punjab and other provinces:

"There can be no doubt that the prosperous grain harvest of 1871-72 in the North-Western Provinces made prices easier in the Punjab; when there is a demand for grain in other provinces, the Punjab prices always rise, even though the supply be abundant" (p. 152).

The spring crop of 1873-74 was "a most abundant one," but according to the Punjab Administration Report for 1873-74, "the effect of this on prices was to a considerable extent counter-balanced

by the extraordinary export of food grains to the Bengal famine districts."

The Punjab Administration Report for 1876-77 refers to the "great demand for export to the famine districts of Bombay and to Europe" in the case of wheat in 1876-77. That the price still fell was due to a plentiful supply in the province. "Wheat," the Report adds, "is grown chiefly for sale and export, the agriculturist ordinarily subsisting on the cheaper grains."*

That the European demand exercised a very important influence on the price of wheat in India was admitted by the Indian Prices Enquiry Committee of 1910.†

What is true of wheat is also true of all exported articles. The following statement shows the lowest and highest points touched by the average of 28 exported articles in each decade between 1861 and 1920:—

		Highest.	Lowest.
1861—70	..	110 (1866)	88 (1861 and 1862)
1871—80	..	114 (1878)	90 (1876)
1881—90	..	104 (1889)	91 (1885)
1891—1900	..	124 (1908)	103 (1891)
1901—10	..	124 (1897)	103 (1903)
1911—20	..	281 (1920)	136 (1911)

It is seen that with one exception, the lowest price-index of each successive decade was higher than that of the preceding decade. In 1901—10 the prices of exported articles were lowest in the year 1903, when, falling from 113 in 1902, they returned to the level of 1891 (103).

While prices showed a tendency towards a slow and gradual rise between 1861 and 1905 (more accurately after 1865) on account of the influence of the export trade, they were still subject to seasonal fluctuations. As before the era of railways, they rose in a year of famine or scarcity, but not so sharply as before, and returned to about (not quite) the old level with the advent of normal

*P. 82.
†P. 114.

seasons. India was visited by famines in 1876-78, 1896-97 and 1899-1900; 1866, 1889 and 1908 were years of scarcity.

Prices, 1905—1914

After 1905 the prices of food grains and almost all other articles rose almost continuously till 1914.

Attention was called to the rise of prices in India by an anonymous writer in the *Economic Journal* (London) for March, 1907. He attempted to show that the rise of prices was due to the inelasticity of the Indian currency system:

"The conclusion therefore cannot be resisted that the floods of rupees entering the country in the busy season must, finding no employment thereafter, choke the circulation in the dull season and raise prices, whilst each succeeding year the demand grows like a snowball falling down a slope."

In the Budget debate of March, 1908, Mr. Gokhale drew attention to the rise of prices which he attributed to the heavy coinage of rupees by the Government of India, and pressed for the appointment of a committee to consider the whole question of the rise of prices. Writing in the *Journal of the Royal Statistical Society* for September, 1909, Mr. Fred. J. Atkinson, sometime Accountant-General of the United Provinces, reached the same conclusion, that the question of a redundant currency was mixed up with the currency system of India and that the redundancy was due to the fact that the currency was not automatic.

The Government of India appointed a Committee for the investigation of the problem in 1910. The Committee submitted its report in 1914.

The Committee recognised that "up to 1905 the fluctuations in the prices of food grains and pulses depended largely on the agricultural conditions in India." But a sharp and rapid rise of prices began in 1905 which was not always wholly due to unfavourable agricultural conditions. Taking India as a whole the agricultural conditions were not seriously adverse either in 1905 or in 1906. Still these years appeared to have ushered in a new period in the history of Indian price levels, the predominant

characteristic of which was the existence of famine prices without famine.'*

The Committee compared the rise of prices in India with that in the leading countries of the world and found that the rise was greatest in India. This is shown by the following statement:—

THE RISE IN WHOLESALE GOLD PRICES IN INDIA AND OTHER COUNTRIES IN THE QUINQUENNIUM 1907-11

Country.	Compared with 1890—94	Compared with 1894—98
India	40	40
Belgium	25	26
Germany	24	38
United States	20	38
Canada	19	31
Italy	14	24
Australia	13	20
France	12	26
United Kingdom	9	21
New Zealand	1	9

In viw of the greater rise of prices in India the Committee considered it necessary to examine at length the probable causes of the rise of prices peculiar to India. The general causes of the rise of prices throughout the world were: a shortage in the supply of, or an increase in the demand for staple commodities in the worlds markets; the increased gold supply from the world's mines; the development of credit; and destructive wars and the growth of armaments.

Mr. K. L. Datta (who wrote the Prices Report) regarded comparative shortage of supply as one of the important causes of the rise of prices. The Government of India, however, did not accept this view. They pointed out, in the first place, that the commercial-crops occupied a very small proportion of the total area under cultivation, and that in the country as a whole there was no substitution of non-food crops for food crops. Secondly, they did

* Report, p. 32.

not regard Mr. Datta's estimates of outturn as reliable. The area under cultivation expanded more rapidly than the population, except during the quinquennium 1895-99 to 1899-1900, while between the growth of population and the extension of food cultivation there was "an almost precise parallelism." They also pointed out that the area irrigated from State-owned sources nearly doubled during 1899—1912. Lastly, they agreed with Mr. Datta that the export of food grains exercised a negligible influence on their prices.

The Government of India also agreed with Mr. Datta that the rise of prices during 1890—1912 was not the effect, but the cause of increase in the circulation of rupees, and that the extended use of credit had "an important effect on prices." They, however, seemed to attach more importance to world factors than to this or any other cause peculiar to India. From 1890 to 1905 "Prices rose or fell in the main in accordance with changes in the agricultural conditions from year to year." The causes of rise of prices since 1905, "must be sought for in a different and independent group of circumstances."

To this view, however, it may be objected that if our price level rose under the influence of the rising price levels of foreign countries, it could not have risen more rapidly than the latter. The rise of prices in Germany and the United States, as Mr. Datta said, could be partly accounted for by their protective tariffs and growth of industrial and commercial combination in these countries. But no such factors were at work in India.

As regards the effect of credit upon prices, both Mr. Datta and the Government were mistaken in their view.

Some evidence on the use of cheques in India was taken by the Chamberlain Commission. Mr. Henry Marshall Ross,* a witness, was of opinion that the use of cheques could be advantageously extended even in the Presidency towns. "It is very poor at present," he said. He was asked whether the use of cheques was likely to curtail the circulation of currency notes and whether it was probable that cheques would be used at all throughout the

* A Calcutta export merchant.

country beyond the Presidency towns. His reply was " not within any period I can look forward to myself. They will be confined to the Presidency towns' business."

Important evidence in this connection was given by another witness:*

Q. 4106. (Mr. Keynes). Can you tell us in what class of tranactions you find it possible in your business to use cheques?—Speaking of my own business I use cheques practically in every case. No matter what the kind of payment, except for wages and salaries which I always pay in cash.

4108—If you are buying produce of an Indian trader, would you pay him by cheque?—Very rarely. He probably wants either currency notes or actual cash.

4109—Then these cheques which you mention are paid to English merchants?—That is so largely.

4110—And except when you are making payments to other English merchants you would not use cheques much?—No, broadly speaking, I should not.

In a memorandum submitted by the same witness to the Commission, he had referred to the possibility of the use of cheques being gradually increased throughout the country. The Commission asked him whether he thought that would be a speedy process. The witness said " No." What he had in his mind more particularly was the European Community using cheques more—" . . . the native does not to any great extent use cheques for large amounts," he added.

Q. 4072. And it is not likely that he will? " I do not think so for long time to come."

The Prices Committee did not seriously examine the charge of inelasticity brought against the gold exchange system.

So far as the addition of rupees to the circulation is concerned, the only difference between the gold exchange system and the system which existed before 1893 according to Mr. Datta was that while in the one case rupees were issued in exchange for the imported gold and Council bills, in the other case they could be obtained directly by the minting of bullion at the option of its owner.

In a monetary system with an open mint the currency decreases automatically when the rise of prices causes imports to increase and

* Sir Alexander McRobert, a woollen manufacturer.

renders the export of gold or silver necessary. The circulation is thus reduced and prices fall. Under a gold exchange system an adverse balance of trade cannot be adjusted by the exportation of the token coins. The tokens must be converted into gold (or bills payable in gold) for that purpose. The Government of India did so when it became necessary. This was the outlet provided for the excess currency.

What the Prices Committeee forgot was that before the rupee became a token coin (that is, before 1893) hoarding and melting, apart from export, accounted for about 45 to 50 per cent of the coinage.

When the rupee became a token coin, the melting of rupees ceased altogether, while for purposes of hoarding gold was preferred. It cannot be doubted that the hoarding and the melting of rupees before 1893 prevented prices from rising too rapidly by reducing the volume of the currency, and that the change in the character of the rupee, from a full value coin to a token coin, by discouraging hoarding and making it unprofitable to melt rupeese, contributed in some measure to the inflation of the rupee currency. It really proves nothing to say, as Mr. Datta does, that the " average annual coinage during the eighteeen years that have elapsed since the closing of the mints has been much less than in the corresponding period preceding that date." The averages are 751 lakhs for the period 1874-75 to 1893-94, and 566 lakhs for the period 1893-94 to 1911-12. In the decade following the closing of the mints the average net coinage was small, due to a deliberate restriction of the coinage to force up exchange. The net coinage of silver was very heavy in the period 1899-00 to 1907-08, amounting to a total of 100·24 crores for 9 years, or over 11 crores annually on an average. During 19 years, from 1874-75 to 1892-93, the total net coinage of silver amounted to 137·88 crores, which gives an annual average of 7¼ crores. The rise of prices became very marked, as we have seen, after 1905. Now in the triennium 1905-06 to 1907-08, the total net coinage of silver amounted to 55·96 crores, a figure which has not been exceeded by the total net coinage in any period of *five* years before the closing of the mints.

The Prices Committee's index numbers showed that between 1890 and 1910 the demand for currency increased much more rapidly than the supply of currency (rupees and notes). The Committee under-estimated the monetary circulation and over-estimated the growth of business. The defence of the gold exchange system by the Princes Committee is of little interest now, after the condemnation of that system by the Hilton Young Commission of 1925.

PRICES, 1914—1920

The rise of prices before the war had one satisfactory feature —the prices of exported articles rose more rapidly than those of imported articles. The outbreak of war made no change in this respect, but as the war proceeded, the shortage of imports, due to the preoccupation of Western countries with the war and the scarcity of shipping, began to make its influence felt. For the first time after 39 years the index number of imported articles rose above that of exported articles in 1916 (236 and 163 respectively) and it remained in that position in the following two years. Some idea of the shortage of imports during the war may be gained from the following statement:

IMPORTS

	Average 1909-10 to 1913-14.	Average 1914-15 to 1918-19.
Cotton manufactures, million yds. ..	2,617	1,810
Metals, iron and steel, tons ..	808	422
Silk manufactures, million yds. ..	26	20
Dyes, million lbs.	15·4	3·1
Woollen piece goods, million yds. ..	22·4	8·2
Glass, sheets and plates, million sq. feet	16·2	8·3
Boots and shoes, 1,000 pairs ..	2,323	1,170
Machinery and mill work, Lakh Rs. ..	561	5
Ry. plant and rolling stock, Lakh Rs. ..	480	298

The war created a demand for some of our exports (notably jute manufactures, leather, metals, wool and rubber) and their prices rose.

The addition to the monetary circulation in five years from 1914-15 to 1918-19 was about 39 crores (rupees 22 crores and notes about 17 crores). But there was a heavy addition to the circulation in 1919-20—more than 40 crores in a single year. The budget deficit in 1919-20 exceeded 23 crores; practically the whole of the deficit was due to the Afghan War. The deficit was met by the issue of fiduciary currency against the Government's own securities.

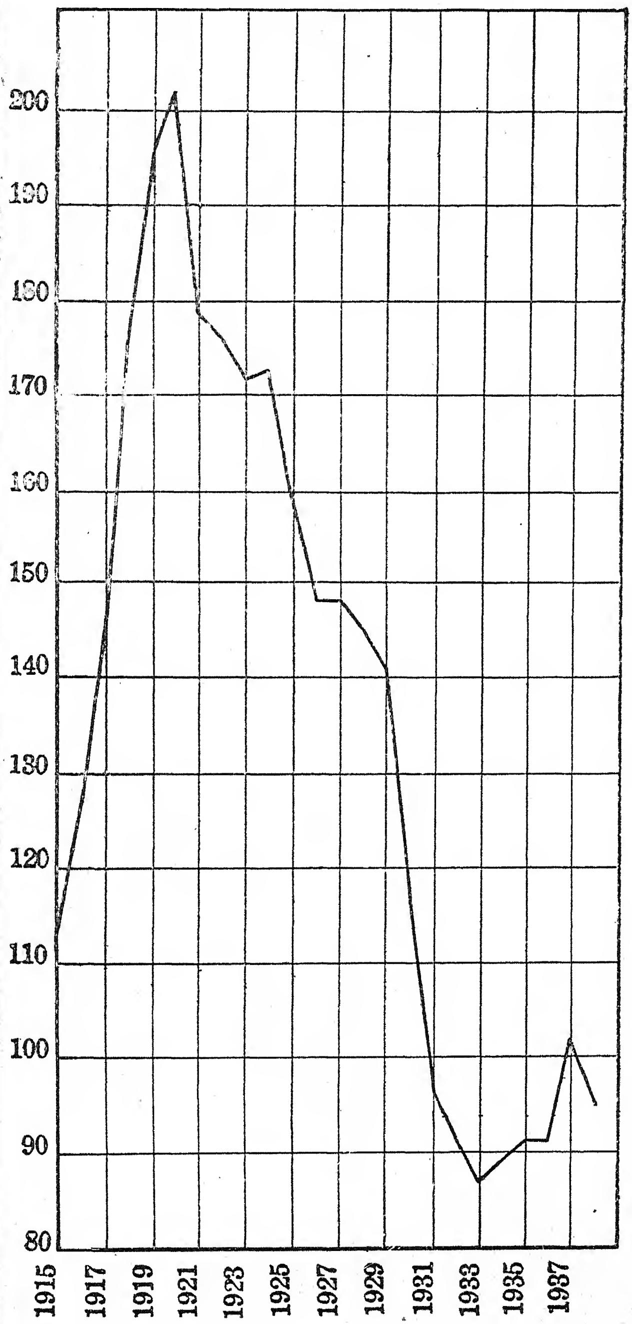
In India, as in European countries, prices were highest in 1920, but Indian prices rose to a smaller extent than Europe prices. The causes which raised prices in Europe were also working in India but in a much attenuated form.

While the heavy fall of prices since 1929 has made the masses of India poor, and every one would welcome a rise of prices, an uncontrolled rise of prices is not an unmixed blessing either. In a memorandum submitted to the Babington Smith Currency Committee (1919) the Government of India said: "There is no longer any room for doubt that the resultant increase in the expense of living due to the high prices of food grains, also of other necessaries, such as cloth and kerosine oil, and the hardship which the increase has entailed on the poorer classes and those on fixed incomes, has been a very important factor in promoting unrest and discontent."

The following table shows the index numbers of wholesale prices in Calcutta, July 1914=100.

Year.	Index No.	Year.	Index No.
1915	112	1927	148
1916	128	1928	145
1917	145	1929	141
1918	176	1930	116
1919	196	1931	96
1920	202	1932	91
1921	179	1933	87
1922	176	1934	89
1923	172	1935	91
1924	173	1936	91
1925	159	1937	102
1926	148	1938	95

CHART NO. 21 WHOLESALE PRICES AT CALCUTTA, JULY 1914=100. 1915—1938



It will be seen that a considerable fall of prices had occurred between 1920 and 1929, from 202 to 141. The prices of post-war years were inflated. Between 1920-21 and 1929-30 net withdrawals of currency amounted to Rs. 86 crores.

PRICES SINCE 1929

A new era in the history of Indian and world prices began with the beginning of the world trade depression in 1929. The causes, monetary and non-monetary of the trade depression are discussed elsewhere in this book. The Calcutta index numbers show a rapid and continuous fall of prices till 1933; then began a period of recovery which ended in the year 1937. The following statement shows the index numbers of prices by groups of articles in 1933, 1937 and 1938 (annual averages):

Index Numbers of Wholesale Prices. July 1914=100.

	1933	1937	1938
FOOD-GRAINS:—			
Cereals (3) ..	66	77	72
Pulses (6) ..	84	89	88
Sugar (5) ..	131	102	132
Tea (2)	95	144	130
Other food articles (9) ..	91	125	109
Oilseeds (2) ..	74	115	106
Oil mustard (2) ..	52	75	77
TEXTILES:—			
Jute raw (3) ..	41	56	49
Jute Mfs. (4) ..	77	67	62
Cotton raw (2) ..	50	89	67
Cotton Mfs. (7) ..	113	117	106
Other textiles, wool and silk (2) ..	64	126	83
Hides and skins (3) ..	59	81	64
Metals (6) ..	99	144	140
Other raw and mfd. articles (3) ..	95	92	91
Building materials (teak wood). (1) ..	124	117	124

Figures in brackets show the number of items included.

In 1938 cereals were only 6 points above the average for 1933, and raw cotton 13 points lower. As compared with the base year, the prices of the following commodities had risen in 1938: sugar, tea, other food articles, oil seeds, cotton manufactures, metals, and teak wood; all other articles were below the basic average, the fall in the prices of the following articles being particularly heavy: cereals, oil mustard, jute raw and manufactures, cotton raw, and hides and skins.

The effects of the heavy fall of prices on agriculturists and the country generally may be thus briefly summarised:

1. The fall of prices has made agriculture unremunerative over a great part of the country. The average net income per acre of the farms, excluding Risalewala, included in the Punjab Farm Accounts (calculated without including wages for the cultivator and working members of his family in expenditure) fell from Rs. 27-0-9 in 1928-29 to Rs. 3-15-7 in 1930-31 and amounted to only Rs. 14-15-5 in 1934-35. In view of the fact that the majority of owners in the Punjab own less than 5 acres of land, the heavy reduction in their income means starvation wages for their labour, or no wages at all.

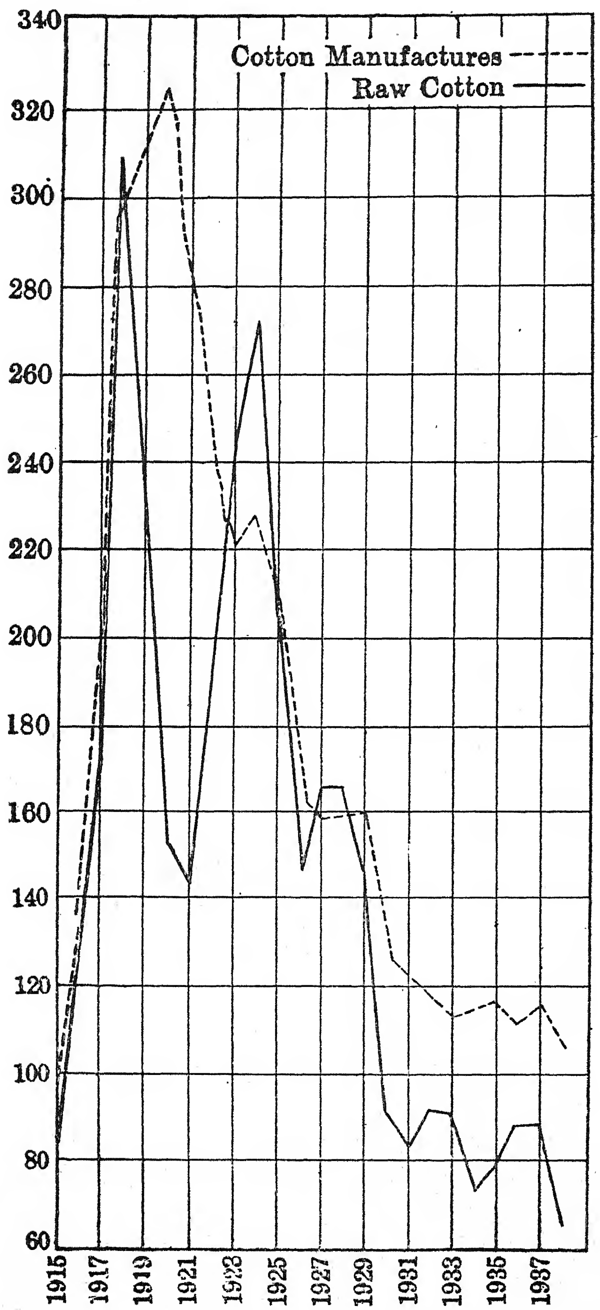
2. The condition of the tenant is still less favourable than that of the peasant proprietor. In the case of the tenant cultivator the fall of prices means that he works almost entirely for the benefit of the non-working landlord.

3. The burden of rural debt has increased beyond the capacity of the borrower to pay.

4. The burden of Government dues (land revenue and water rates) has increased. There is a great deal of evidence to show that in recent years peasants have paid Government dues by selling gold and ornaments.

5. What the peasant buys is dearer and what he sells is cheaper than before. For example, the average for 1938 for metals was 140 and cotton manufactures 106, as compared with cereals 72 and raw cotton 67. The operation of 'the scissors' is an additional cause of hardship to the rural population.

CHART NO. 22. INDEX NOS. OF PRICES.
JULY 1914=100 1915—1938.



6. The country as a whole is a loser since it has to part with a larger quantity of primary products than before to obtain a given quantity of manufactured imports.

7. Imports have been paid for to an amount over Rs. 321 crores by the export of gold, or the country has been living on its capital.

There is widespread agrarian discontent in the country. Seemingly the credit of the Government of India and Provincial Governments is high: the rate of exchange is being maintained within the specie points and the Central and Provincial Governments have balanced budgets. But there is heavy over-taxation of the rural masses. The debtor and creditor relations have been embittered by the fall of prices, and the situation has not been improved by agarian legislation directed to re-adjust these relations. The tenantry has been made conscious of the unjust exactions of landlords. And there is no way out.

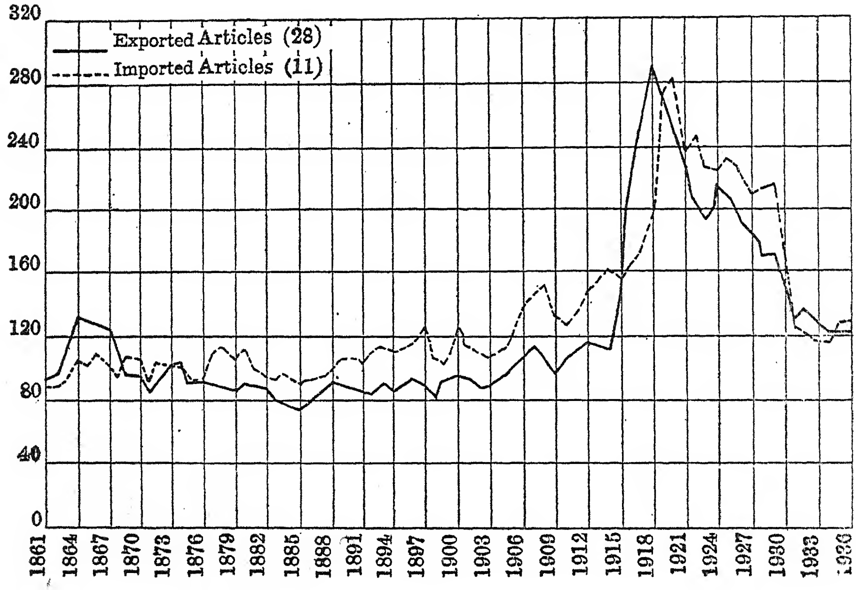
Attention may be specially drawn to the chart showing fluctuations in the prices of exported and imported articles from 1861 to 1936. It is based on the index numbers of the Commercial Intelligence Department, 1873=100. It is seen that from 1877 to 1915 exported articles were relatively higher in price than imported articles. The Great War raised the prices of manufactured imports above those of our primary products—in 1918 the index number for imported articles stood at 289 as compared with 199, the average for imported articles in the same year. Then came the fall of prices and again till 1930 India was in a position of advantage. From 1931 to 1934 imported articles were relatively higher in price.

I

Index Numbers of Prices in India. 1873=100 (Commercial Intelligence Department).

Year.			Exported articles 28.	Imported articles 11.	General Index No. 39 articles.
1861	..	..	88	95	90
2	..	..	88	95	90
3	..	..	93	113	98
4	..	..	103	132	111
5	..	..	100	125	107
6	..	..	110	126	115
7	..	..	102	124	108
8	..	..	94	107	98
9	..	..	108	97	105
1870	..	..	105	95	102
1	..	..	95	88	93
2	..	..	101	91	98
3	..	..	100	100	100
4	..	..	102	99	101
5	..	..	95	90	94
6	..	..	90	91	90
7	..	..	110	88	104
8	..	..	114	84	106
9	..	..	112	83	104
1880	..	..	110	88	104
1	..	..	99	86	96
2	..	..	95	85	92
3	..	..	93	79	89
4	..	..	96	78	91
5	..	..	91	75	87
6	..	..	93	80	89
7	..	..	94	83	91
8	..	..	98	92	96
9	..	..	104	91	101
1890	..	..	104	91	100
1	..	..	103	84	98
2	..	..	109	84	102
3	..	..	112	89	105
4	..	..	110	84	102

CHART NO. 23 INDEX NUMBERS OF PRICES, 1861—1936.
1873=100.



I

In

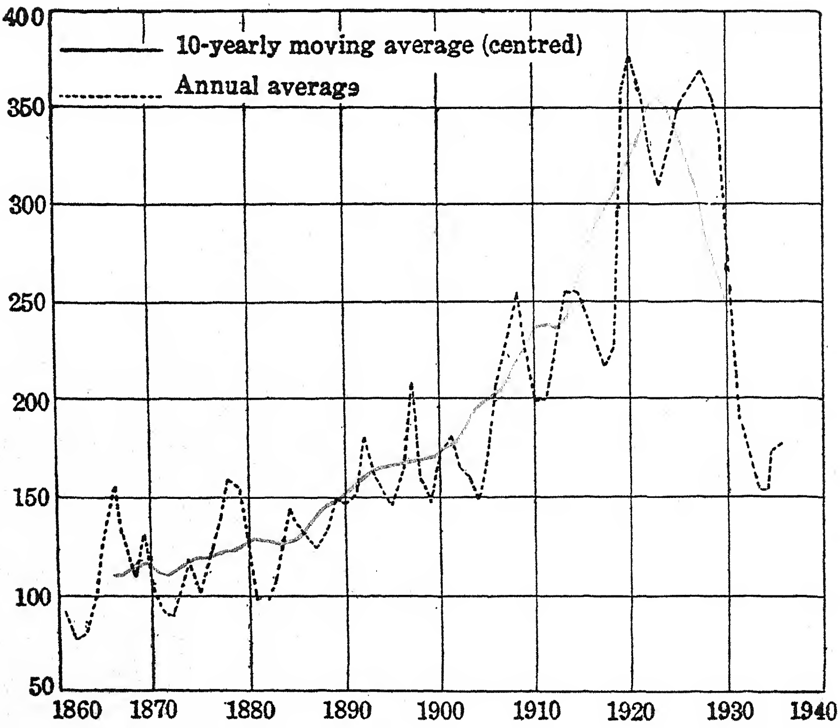
INDEX NUMBERS OF PRICES IN INDIA. 1873=100 (COMMERCIAL INTELLIGENCE DEPARTMENT)—(*Contd.*)

Year.	Exported articles 28.	Imported articles 11.	General Index No. 39 articles.
1895	111	87	104
6	117	94	110
7	124	86	113
8	102	80	96
9	100	87	96
1900	124	96	116
1	116	96	110
2	113	86	106
3	103	88	99
4	104	93	101
5	116	96	110
6	139	105	129
7	145	116	137
8	151	106	138
9	133	99	124
1910	127	109	122
1	136	113	129
2	145	117	137
3	154	117	143
4	160	114	147
5	155	146	152
6	163	236	184
7	170	262	196
8	199	289	225
9	277	274	276
1920	281	280	281
1	239	228	236
2	245	201	232
3	224	193	215
4	222	217	221
5	233	211	227
6	225	195	216
7	209	185	202
8	212	171	201
9	216	170	203

INDEX NUMBERS OF PRICES IN INDIA. 1873=100 (COMMERCIAL INTELLIGENCE DEPARTMENT)—(*Contd.*)

Year.	Exported articles 28.	Imported articles 11.	General Index No. 39 articles.
1930	177	157	171
1	125	134	127
2	120	139	126
3	118	128	121
4	117	122	119
5	128	122	127
6	127	122	125

CHART NO. 24 PRICE OF RICE (INDIA) 1861—1936.



II

Price of Rice

Year			Price Index.	Ten yearly moving average (centred).	Deviations from moving average.
1861	..	..	90	..	..
2	..	..	75	..	..
3	..	..	79	..	..
4	..	..	96	..	..
5	..	..	128	..	..
6	..	..	155	110	+45
7	..	..	129	111	+18
8	..	..	110	113	−3
9	..	..	129	115	+14
1870	..	..	109	115	−6
1	..	..	93	111	−18
2	..	..	87	109	−22
3	..	..	100	112	−12
4	..	..	118	116	+2
5	..	..	102	118	−16
6	..	..	114	118	−4
7	..	..	133	119	+14
8	..	..	159	120	+39
9	..	..	154	121	+33
1880	..	..	121	124	−3
1	..	..	96	126	−30
2	..	..	96	126	−30
3	..	..	110	125	−15
4	..	..	135	123	+12
5	..	..	137	124	+13
6	..	..	128	128	0
7	..	..	123	135	−12
8	..	..	131	141	−10
9	..	..	148	145	+3
1890	..	..	147	146	+1
1	..	..	150	148	+2
2	..	..	179	154	+25
3	..	..	162	159	+3
4	..	..	152	161	−9
5	..	..	143	162	−19
6	..	..	162	164	−2
7	..	..	207	165	+42

PRICE OF RICE—(*Contd.*)

Year			Price Index.	Ten yearly moving average (centred).	Deviations from moving average.
1898	..	..	158	164	−6
9	..	..	145	164	−19
1900	..	..	171	166	+5
1	..	..	180	169	+11
2	..	..	165	172	−7
3	..	..	160	178	−18
4	..	..	147	187	−40
5	..	..	169	192	−23
6	..	..	209	194	+15
7	..	..	229	198	+31
8	..	..	254	206	+48
9	..	..	220	216	+4
1910	..	..	198	226	−28
1	..	..	199	231	−32
2	..	..	230	231	−1
3	..	..	255	229	+26
4	..	..	254	235	+19
5	..	..	246	251	−5
6	..	..	234	267	−33
7	..	..	215	280	−65
8	..	..	228	287	−59
9	..	..	357	294	+63
1920	..	..	376	303	+73
1	..	..	355	315	+40
2	..	..	326	329	−3
3	..	..	308	343	−35
4	..	..	335	348	−13
5	..	..	352	342	+10
6	..	..	359	329	+30
7	..	..	368	313	+55
8	..	..	357	297	+60
9	..	..	336	280	+56
1930	..	..	273	262	+9
1	..	..	189	244	−55
2	..	..	175	..	..
3	..	..	152	..	..
4	..	..	152	..	..
5	..	..	173	..	..
6	..	..	175	..	..

CHART NO. 25 PRICE OF WHEAT (INDIA) 1861—1936.

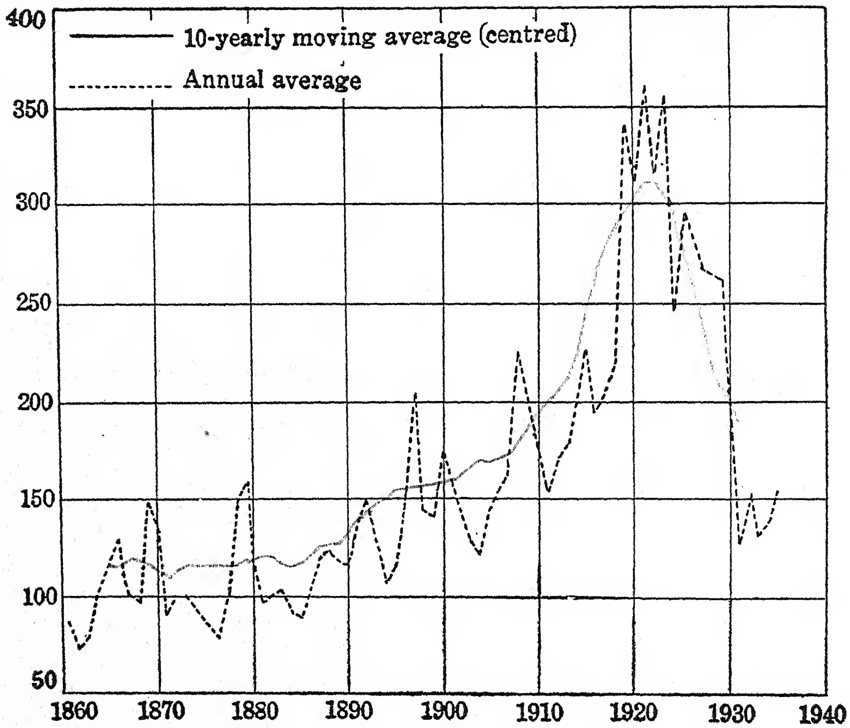
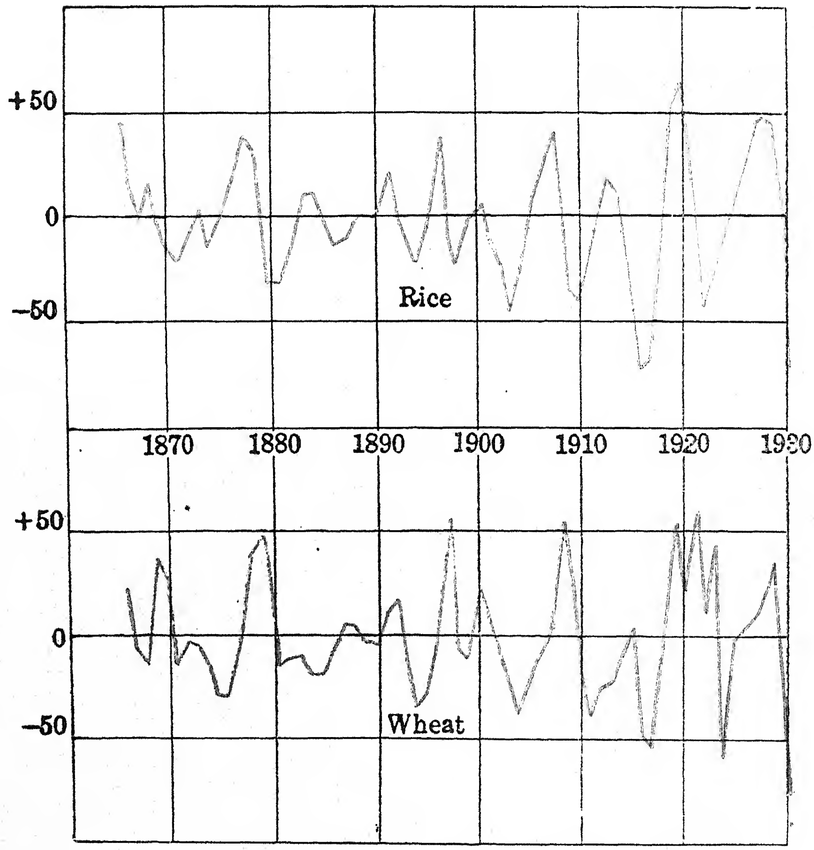


CHART NO. 26 SHORT-TIME FLUCTUATIONS (ELIMINATING THE GENERAL TREND), 1861—1936.



III

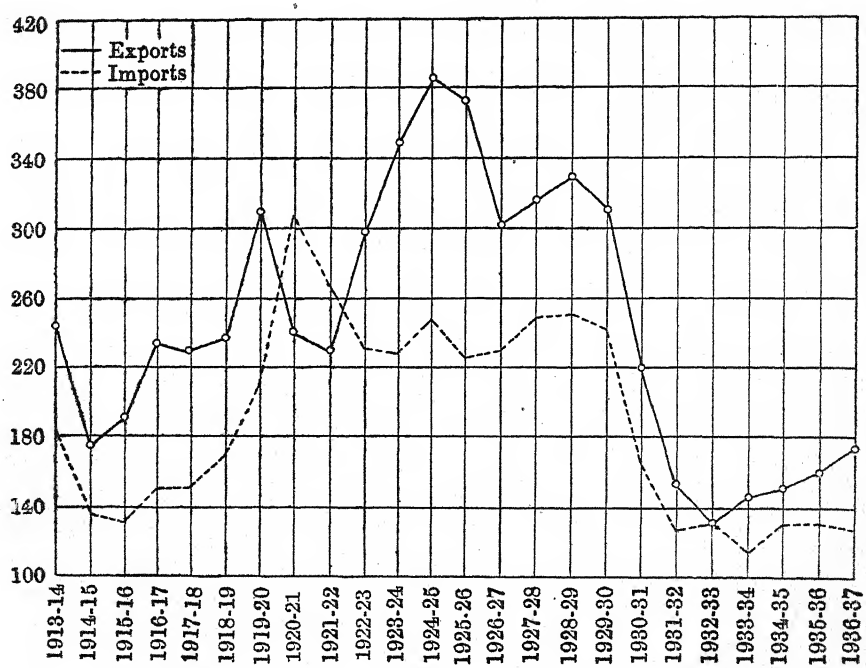
PRICE OF WHEAT

Year			Price Index.	Ten yearly moving average (centred).	Deviations from moving average.
1861	..	..	86	..	..
2	..	..	73	..	..
3	..	..	80	..	..
4	..	..	102	..	..
5	..	..	115	..	..
6	..	..	129	107	+22
7	..	..	101	108	−7
8	..	..	96	111	−15
9	..	..	148	111	+37
1870	..	..	136	109	+27
1	..	..	90	105	−15
2	..	..	98	102	−4
3	..	..	100	105	−5
4	..	..	94	108	−14
5	..	..	81	108	−27
6	..	..	78	107	−29
7	..	..	102	107	−5
8	..	..	147	108	+39
9	..	..	158	108	+50
1880	..	..	118	108	+10
1	..	..	96	110	−14
2	..	..	101	112	−11
3	..	..	103	112	−9
4	..	..	91	108	−17
5	..	..	89	106	−17
6	..	..	103	108	−5
7	..	..	121	113	+8
8	..	..	123	117	+6
9	..	..	118	118	0
1890	..	..	117	120	−3
1	..	..	137	124	+13
2	..	..	151	131	+20
3	..	..	127	136	−9
4	..	..	105	138	−33
5	..	..	116	142	−26
6	..	..	153	147	+6
7	..	..	206	147	+59

PRICE OF WHEAT—(*Contd.*)

Year			Price Index.	Ten yearly moving average (centred).	Deviations from moving average.
8	..	..	143	147	−4
9	..	..	140	148	−8
1900	..	..	176	150	+26
1	..	..	160	152	+8
2	..	..	142	150	−8
3	..	..	129	152	−23
4	..	..	123	159	−36
5	..	..	142	162	−20
6	..	..	155	161	−6
7	..	..	168	163	+5
8	..	..	226	166	+60
9	..	..	203	173	+30
1910	..	..	170	181	−11
1	..	..	153	187	−34
2	..	..	170	191	−21
3	..	..	177	195	−18
4	..	..	200	204	−4
5	..	..	227	218	+9
6	..	..	193	235	−42
7	..	..	205	253	−48
8	..	..	270	269	+1
9	..	..	341	280	+61
1920	..	..	310	286	+24
1	..	..	360	293	+67
2	..	..	315	301	+15
3	..	..	356	304	+52
4	..	..	246	299	−53
5	..	..	294	289	+5
6	..	..	281	271	+10
7	..	..	267	251	+16
8	..	..	264	232	+32
9	..	..	262	217	+45
1930	..	..	177	203	−26
1	..	..	126	189	−63
2	..	..	150	..	..
3	..	..	151	..	..
4	..	..	135	..	..
5	..	..	141	..	..
6	..	..	152	..	..

CHART NO. 27 EXPORTS OF INDIAN MERCHANDISE AND IMPORTS 1913—14 TO 1936—37.



CHAPTER XIII

THE CRISIS

There is no part or aspect of our economic life which does not show the effects of the crisis or of the heavy fall in agricultural prices since 1929. A study of the nature and causes of the crisis is therefore of the utmost importance.

The flow of trade and production is not uniform—it is subject to rise and fall of a cyclical nature.

The more important crises in the 19th century occurred in England in 1825, 1837, 1847, 1857, 1866, 1878, 1890, and 1900. Each year formed the middle point of a cycle, being preceded by a period of expansion leading to over-trading and followed by a period of contraction, more or less prolonged and more or less painful.

The years 1843 to 1910 saw eight major trade cycles in Germany: 1843-51, 1852-61, 1862-68, 1869-79, 1880-87, 1888-94, 1895-1902 and 1903-10. Each cycle began with a boom, which was followed by a depression lasting from 2 to 6 years.

A new upward cycle in world production and trade was in progress when the Great War broke out.

Production in an agricultural country also revolves in a cycle. But crises in a country where credit is less developed are chiefly Nature's crisis.

When, for example, we examine the course of food-grain prices in India we are at once struck by the cyclical nature of the price fluctuations. Taking the retail prices of food-grains in 1873 as 100, we find that the index number rose from 81 in 1862 to 137 in 1866, and after falling to 116 in 1868, rose to 149 in 1869. The next great rise took place in 1878 when prices rose 74 per cent as compared with the base year. Between 1881 and 1884 prices were below 100, but they rose in 1892, and more sharply in 1896-97 and 1899-1900.

The explanation of this rise and fall of prices is simple. Prices rose on account of famine or scarcity, and they fell with the return of favourable seasons. It is only after 1905 that food prices rose to famine levels without famine in the country.

Crises in the West are of a different character. It is probably true that every crisis has its roots in physical, objective events but the course of trade and production in the West is materially influenced by the supply of credit and various other factors which are concerned more with men's psychology than changes in the physical volume of production.

Credit and states of mind are so intimately connected with the expansion and contraction of business activity in the West that attempts have been made to evolve theories of crises which almost completely ignore physical factors. The psychological theory attributes crises to errors of pessimism and optimism. Monetary theories ascribe trade cycles mainly to defects in monetary, financial and banking organisation.

The last crisis has led to a re-examination of these theories, for it contains features which are difficult to explain in monetary or psychological terms. What is particularly inexplicable is the extraordinary persistence of the crisis. The crises of the past came and went. There took place a contraction of credit and a fall of prices, followed by gradual recovery and re-expansion. The worst phase of a crisis of the past was over within a year. The acute phase of the present crisis began in 1929, and even in 1939 it is impossible to speak of agricultural recovery in India.

Fall of Prices 1929-33

The chief feature of the crisis was a heavy, continuous and universal fall of prices.

Between 1929 and March 1933 the fall in our prices amounted to 42 per cent. The percentage decline in prices in the more important countries between the peak in 1929 and March 1933 was as follows: United Kingdom 30·4; U. S. A. 37·6; Germany 34·7; France 40·9; Japan 22·2; Italy 42·5; Netherlands 51·0; Canada 34·4. Of 32 countries, for which price statistics are avail-

able, only 2 (Greece and Chile) show a rise of prices.[1] As regards the remaining 30, the fall of prices in no less than 18 exceeded 30 per cent in this period.

The fall of prices was not uniform. It was much greater in the case of food-stuffs and raw materials than in that of manufactured goods. For example, in March 1933 the index number for raw jute in India stood at 38, and for jute manufactures at 68; raw cotton had in the same month fallen to 79 but cotton manufactures showed a rise of 12 per cent above the pre-War level. Cereals had fallen to 61 but metals only to 94, while building materials (teak wood) stood at 124. The experience of other countries was similar.

Percentage decline in agricultural prices in certain countries:[2]

JANUARY 1929 TO MARCH 1933

	Decline in national currency.	Decline in gold prices
Argentine ..	51·4	70·5
Australia ..	35·9	65·5
Canada ..	53·2	61·0
India	38·3	56·4
U. S. A. ..	59·6	59·6

Agricultural countries suffered not only on account of the greater fall in the prices of their products as compared with those of manufactured goods, but on account of the agricultural protection that has greatly increased in industrial countries. Terms of foreign trade have moved against agricultural countries and in favour of manufacturing countries. Of this a few example may be given. In 1929 the index of import prices in the United Kingdom (1927=100), was 99, and of export prices 97, export prices being thus 99 per cent of import prices. In 1932 import prices fell to 65 and export prices to 76, with the result that export prices were 19 per cent above import prices. The percentage excess of export over import prices for other countries in 1932 was as follows:[3]

[1] League, Depression, p. 39.
[2] *Ibid.*, p. 57
[3] *Ibid.*, p. 59.

France	18
Germany	41
Italy	3
Switzerland	19
U. S. A.	46

It is evident that agricultural countries suffered grievously on account of the heavier fall in the prices of food-stuffs and raw materials.[4]

The facts relating to the origin of the crisis and its development are fairly clear and, thanks to the excellent publications of the League of Nations on this subject, they are widely known. It is the explanation of the crisis that is difficult. Is the crisis merely a conjunctural crisis, that is of a cyclical nature, such as those of the past, or one due to structural changes, bringing in their train alterations of a fundamental nature in the relations of supply and demand, of production and consumption. The answer to this question is important, for the discussion of remedies must depend on the view taken of the causes of the crisis.

Wilhelm Roepke, a leading German economist, has given an interesting analysis of the crisis. In its nature and first stage the crisis was a conjunctural crisis, that is, it represented an inevitable reaction to the preceding period of credit expansion and over-investment in the whole world. But in that case, after a painful period of liquidation, extending over not more than a year, a new equilibrium should have been established. Not only did that not happen, but many circumstances conspired to cause a 'secondary'

[4] Manufacturing countries have their own difficulties. While the prices of imported food-stuffs and raw materials have fallen more than those of exported manufactured goods, export prices are lower than those of goods retained in the country for home consumption. Protection has added to the difficulties of manufacturers. They have been compelled, in order to sell anything at all in foreign countries, to continuously lower the prices of exported articles. This has meant heavy sacrifices for those who produce for export, in view of the fact that many items of cost of production (*i.e.*, wages and taxes) are inelastic. The internal prices of same goods have remained relatively high. "Such is the sacrifice", remarks Sig. Vincent Porri, "now necessary for conquering tariff barriers, erected everywhere for shutting out foreign competition; such are the efforts made for maintaining relations with the foreign clientele". (Economic Essays in Honour of Gustav Cassel, pp. 523-25).

crisis to emerge from the first, to which Roepke gives the name 'primary'. The emergence of this secondary crisis dates from the year 1931.[5] This 'secondary' crisis is marked by deflation of an altogether new kind in which the fall of prices is of wholly subsidiary importance. Declining prices are only a weak reflection of the general process of economic contraction. "As a matter of fact the process of contraction, is, in the first place, a process of contraction of quantities produced, and only so far as the adjustment through the quantities produced (*i.e.*, their reduction in relation to demand) is incomplete, there is also a process of price-contraction". The chief features of the 'secondary' crisis are, therefore, contraction of income, contraction of demand, and contraction of production. Complications were introduced in this process of adjustment by other factors, *e.g.*, reparations and other political and commercial debts, short period loans, the rise of nationalism, and an 'orgy of protectionism' which may be regarded as a product of *Bellizisumus* (growth of war-like feeling) and nationalism.[6] The agricultural crisis made matters worse, and, finally there was superadded the international credit-crisis of the year 1931, which might have been avoided by timely united action on the part of the leading countries.[7]

Roepke's remedy for the situation was the adoption of a policy of 're-expansion'. He makes it quite clear that 're-expansion' does not mean a demand for raising the general price level. "The essential thing is not fighting price-contraction but fighting demand—, production—, and thus finally also income-contraction."

Other writers, while recognising that a return to 1928 prices is impossible, still advocated a policy of 'reflection'.[8] At the same time the State was asked to follow a vigorous policy of assisting industry, and of saving such businesses as could be saved.

[5] Economic Essays in Honour of Gustav Cassel, pp. 556-57.

[6] W. A. Jan, 1933, p. 27.

[7] Economic Essays, loc. cit., p. 562.

[8] *Ibd.*, p. 615.

THE CONJUNCTURAL EXPLANATION

Keeping in view the catastrophic fall of prices, the universal character of the depression, its intensity, and the extraordinary persistence of its worst features, we inquire: was the crisis preceded by an extraordinary inflation of credit and abnormal boom conditions throughout the world, so that when the brake in the shape of stiffer money rates was applied, a crisis of unprecedented magnitude was precipitated?

There is not much evidence to support this view. *The Course and Phases of the World Economic Depression* of the League of Nations thus summarises the economic situation in the world in the years 1920-29:

"The general impression conveyed is that there was very little uniformity in the movement of business conditions in the different countries during the last decade, especially before 1927. Only in a few countries—such, for instance, as the United States, Great Britain, Canada and Czecho-Slovakia—can a cyclical movement with a period of 3 to 4 years be observed, and even in these cases the movements did not synchronise"[9].

A few examples may be given to illustrate this. There was a crisis in 1921-22, but it was felt severely only in countries which were pursuing a policy of deflation. In other countries, were there was no deflation, 'prices, after a temporary setback, resumed their upward movement'. The year 1923 was one of recovery, but improvement had begun earlier in Canada and the United States, and these countries "entered upon a brief phase of declining activity "in the latter part of the same year[10].

The recession of 1924 in North America was not felt in Europe.

Monetary deflation depressed business conditions in many countries in 1925, but in the second half of the year, Canada, Spain, the Argentine, Japan and India "were still in the upward phase of the cycle"[11].

[9] League, Depression, p. 110.
[10] *Ibid.*, p. 106.
[11] *Ibid.*, p. 107.

England's loss in 1926 on account of the coal dispute and the general strike was her rivals' gain. Germany, Belgium, Sweden and other countries profited by the decline of business activity in England. But production in France, Spain and Italy suffered on account of monetary troubles.

The year 1927 saw currency stabilisation in most countries and "there was a clearly marked tendency towards expansion of production and trade"[12]. But conditions were unsatisfactory in some countries (France, Italy, Denmark Norway, Rumania, Brazil and Japan), chiefly on account of monetary difficulties.

In the year 1928 industrial activity and stock exchange transactions and quotations in some countries "attained boom proportions". But in Germany and certain cereal producing countries there was no boom—only "on the whole the level reached was maintained". In Australia, on the other hand, conditions were adverse on account of the bad crop in the winter of 1927-28. There was 'a certain recession' in Finland, and "industrial production in England declined in the first half of the year" (1928).

In the year 1929 production remained stationary or slightly declined in Poland, Hungary, the Argentine, Canada, Czecho-Slovakia and Switzerland, but in other countries (*e.g.*, United States, England, France, Germany and Sweden) it increased, and in some branches of industry "hitherto undreamt of levels were attained"[13].

All this does not furnish evidence of any extraordinary or universal boom. What we actually find is an improvement in some countries, and a recession in others, and the degrees of improvement or recession in different countries are different.

Boom conditions did exist in the United States in 1928 and 1929. "In other countries, there was also an increase in production during these years, but boom conditions were felt to a less extent"[14]. Unemployment, though declining, still "remained on a relatively high level". Agricultural countries experienced no

[12] *Ibid.*, p. 107.
[13] *Ibid.*, p. 108.
[14] *Ibid*, p. 123.

boom, as the fall of agricultural prices (which commenced before the New York stock exchange crash of October 1929) had reduced the purchasing power of the peasant class.

Great Britain was adversely affected by the unsatisfactory conditions in certain over-seas markets. There was no boom even in Italy. The increase in business activity in this country marked a revival of trade after the depression, due to deflation, of 1927.

Having noted the fact that there was no real boom throughout the world in 1927-29, or preceding years, let us follow the story of the crisis in the United States.

American Boom

The signal for the outbreak of the crisis was given by the stock exchange crash in New York in October 1929. The collapse was preceded by the usual boom.

Authoritative figures show that between 1926 and 1929, prices were rising very slowly in the United States. Taking prices in 1926 as 100, the index number rose to 103 in 1928 and 105 in 1929. There was a slight reduction in the quantity of money in circulation (3 per cent in 1928 and 1929; 1926=100) and a small increase in the amount of deposits subject to cheque (4 per cent in 1928 and 3 per cent in 1929; 1926=100). The clearing index of business, prepared by the Federal Reserve Bank of New York, rose from 100 in 1926 to 102 in 1928 and 106 in 1926, while industrial production, after falling 2 per cent in 1927 (1926=100) rose to 103 in 1928 and 110 in 1929 [15].

These figures do not show any sensational growth of business activity. And yet, in spite of almost stationary prices, and on the basis of a slowly expanding industrial production, business profits in the United States were increasing at an abnormal rate.

The increase of business profits was due to the fall in costs of production made possible by technical progress; wages did not rise much.

[15] *Facing the Facts*, pp. 16-19.

The very high profits earned in the automobile industry led to over-investment in that field, " and the capacity of the industry reached the most amazing proportions "[16].

With the growth of industrial profits speculation grew and prices of industrial stocks leapt up. Kemmerer thus describes the situation:

" Prices of stocks on our exchanges rose to figures out of all proportion to the earnings, actual or prospective, of the respective companies........ From September 1924 to September 1929 the mean of the monthly high and low daily averages of prices of 351 industrial stocks, as given by the Standard Statistics Company, rose from 70·7 to 216, and for 33 railroad stocks from 79·3 to 168·1. The volume of monthly sales on the New York stock exchange increased during the same period from 18 million shares to 100 million shares "[17].

It may be noted that the boom in the United States " was rather a typical investment boom than a consumption boom "[18]. The increase in the production of articles of consumption such as leather goods, shoes and textiles was much less than that in the production of iron and steel. The consumption of food products remained unchanged. The increased purchases of automobiles or the products of the radio industry " required investment of savings no less than the purchase of machinery ".

Credit conditions in the first 12 months after the summer of 1927 were easy in the United States and other countries. The credit created in the United States in this period was largely utilised for speculative purposes.

The conditions of easy credit changed both in the United States and other countries in the summer of 1928. To counteract the speculative movement, discount rates were raised by the Federal Reserve Banks, and commercial banks in New York were persuaded not to lend money to the stock market. The high money rates and the contraction of credit attracted foreign funds and caused a re-

[16] *Monetary Policy and the Depression*, p. 7.
[17] *Facing the Facts*, p. 7.
[18] League, Depression, p. 124.

duction of American short-term investments abroad. This created difficulties for debtor countries. From January to October 1929 the gold stocks of the United States rose by 260,000,000, dollars.

At about the same time France also attracted some gold, on account of the improvement in her balance of payments. "The high rates on call money in the United States (8-9 per cent.), the fear that the stock exchange boom there would end in a sudden crash, and to some extent the strain on gold supplies, induced Central banks elsewhere to raise their rates and restrict credit"[19].

The restriction of credit in the United States led to a collapse which meant the ruin of millions. Between June 1929 and June 1932 the prices of 351 industrial stocks fell from 191 to 34 (1926=100), of 33 railroad stocks from 145 to 14 and of 37 public utility stocks from 233 to 55 [20].

Speculators had over-reached themselves and were punished heavily for their sins [21].

[19] *Ibid*, p. 128.

[20] *Facing the Facts*, p. 8.

[21] The fate of speculators in America, and the fact that the stock exchange collapse plunged the United States into chaos and precipitated a violent crisis in the rest of the world, have led many writers to emphasize the danger of speculative activities divorced from production. Speculation, we are taught in text books of economics, tends to steady prices. The speculator does not add to existing supplies, nor does he substract from them, but his activities result in a better adjustment of supply to demand as between the present and the future.

But this is true of speculation which has some relation to actual life. As Sir Arthur Salter says:

"Speculation based on economic realities may be beneficial but 'speculation on speculation' is definitely injurious" (*Recovery*, pp. 37-38).

Speculation has been described as the salt of industrial and commercial activity. Accepting the gastronomic comparison as true, says an Italian writer, it may still happen, that the same palate may reject equally food without salt as food which contains too much salt.

In the United States, in the years immediately preceding the collapse, speculation became an 'end-in-itself'. What happens when speculation becomes an 'end-in-itself'?

"But it is certain that when this happens, and the hope of gain is more and more isolated from productive activity, and comes to rest exclusively on the game of a probability of a rise or fall of prices or the hope of profit arising from the difference between the purchase and the sale price.....there is a transference of activity from the field of work to that of play: from the factory to the stock exchange, from the field of production to that of distribution or redistribution of wealth; and thus the easy enrichment of one at the expense of another comes to mean a transfer of wealth from

Debtor and Creditor Relations

Reference has been made above to reduction in American short time investments abroad, which created difficulties in debtor countries. Debtor and creditor relations next claim our attention as they are intimately connected with the development of the crisis in 1929-31.

Before the War the chief creditor nations were England and France, and of less importance, Belgium, Holland and Switzerland. The United States borrowed more than she lent and the net sum that she owed to other countries in 1924 is estimated at 3,000 million dollars [22].

The economy of a debtor country is different from that of a creditor country. For example, India must export more goods than she imports. A decrease in the amount of our favourable balance of trade is a matter of grave concern to us, for to be able to meet our foreign obligations, we must have a surplus of exports over imports at least equal in amount to our annual external obligations. A creditor country, on the other hand, can afford the luxury of an unfavourable balance of trade. In fact, creditor countries must have an unfavourable balance of trade, for that is only how, normally, debtors can pay interest on loans or return the principal sum.

In the year 1913 imports of merchandise into England were valued at £ 659 millions and exports at £ 525 millions, or England had an adverse balance of trade amounting to £ 134 millions. Imports and exports in 1930 had increased to £ 958 millions and £ 571 millions respectively, or the amount of England's adverse balance had grown to £ 387 millions. How did England pay for this huge total of surplus imports?

In the first place she earned about £ 160 millions as banking, insurance and other commissions and in shipping freights. Secondly,

the one to the other, without any increase in the amount of the wealth—which must, in the end, impoverish the country" (Fabio Luzzatto in Giornale degli Economisti e Rivista Statistica for Feb. 1934, p. 84).

22 H. W. B. Supplement, p. 629.

her income from overseas investments in the shape of interest amounted to £235 millions.

The mechanism of international lending and borrowing is intimately connected with that of credit and exchange.

When we raise a loan in England, exchange will tend to move in our favour, for the loan places us in funds with which we might reduce our foreign indebtedness. In pre-War years and till recently when the Government of India adopted the practice of making remittances to England through sterling purchases in India, these remittances were made through drawings of the Secretary of State for India, or by the sale of Council bills. If a loan was raised in England, the Secretary of State was able to reduce the amount of the sales and use the proceeds of the loan to meet the 'Home charges.' Reduction in the sale of Council bills tended to raise the exchange value of the rupee. At present reduction in the sterling purchases of the Government of India has the same effect on the rupee exchange.

A loan raised abroad increases the purchasing power of the borrowing caountry. If gold is imported, it may be used for creating additional credit. In our case, a part of the loan, in the shape of gold or British securities, may be added to the Paper Currency Reserve in England, permitting the issue of more notes in India.

The creation of additional credit in debtor countries would stimulate trade and industry. Prices would tend to rise, imports would increase, new industries may be founded, old industries may be strengthened and enlarged and large public works may be undertaken. Thus a steady stream of gold flowing into debtor countries may give rise to boom conditions.

Interest would be paid by exports of produce which is in demand in the creditor country. If, on account of famine or scarcity, the necessary exports are not forthcoming, against which bills may be drawn on importers in the creditor country, difficulties arise. A new loan must be arranged or gold must be exported.

Foreign capital has played an important part in the development of colonies and backward countries. India imports both foreign capital and the foreign capitalist.

A part of the capital borrowed is generally spent in the creditor country on machinery, railway material and other goods. Employment is thus created in the lending country and the industries concerned are enabled to expand. A country, then, which exports capital on a large scale would be industrially prosperous, with high wages and a high standard of living. The increase in her purchasing power, due to the expansion of constructional and other industries would enable her to buy more food and raw materials from debtor countries.

But the whole mechanism of international investments is a delicate one. When it is suddenly subjected to a severe strain, it may break.

During 1924-29 the United States and England, respectively, made loans to South America approximating 1,200,000,000 dollars and £ 50,000,000, of which the small Republic of Columbia received 170,000,000 dollars. "There was a great boom. Competitive railway building and other public works sent up wages by leaps and bounds; imports vastly increased; food was imported where before it had been produced locally. When the gold stream ceased, there was a collapse. Imports ceased and Columbia thus added its small quota to depression in the industrial countries."[23] The same thing happened in Brazil, Peru, Chile, probably in the Argentine and "certainly in Australia."[24]

But why should the gold stream cease to flow?

Suppose on account of technical advance in agriculture, production increases so much that food-stuffs and raw materials, the products of debtor countries, cannot be sold at remunerative prices. Prices come down, profits vanish, the credit of borrowing countries contracts and the golden stream ceases to flow. Not only would the creditors not make fresh loans to agricultural countries, but insist on the payment of old debts. Under such conditions foreign capital becomes 'home-sick' (*Heimweh* des Kapitals).[25] The sudden recall of foreign capital may throw the currency system of debtor countries into confusion.

[23] Macmillan Report, p. 80.
[24] Macmillan Report, p. 80.
[25] W. A. April, 1933, p. 323.

The creditor countries themselves cannot escape injury. If the purchasing power of debtors shrinks, their demand for imports from creditor countries would fall. First the constructional industries would be affected and gradually the depression would spread to other industries. The figures of the unemployed would mount up. As the situation grows worse, more countries would become involved in the general chaos and ruin.

This is precisely what happened in 1928—31. During and after the war there was an enormous addition to the debt of the world. The total amount of the world's Government debts in 1924 was officially estimated in Germany at 190,600,000,000 Marks (20·43 Marks=1 £ gold). This includes inter-Allied debts but excludes Reparations imposed by the Treaty of Versailles. The German Institut fuer Konjuncturforschung estimated the political debt of the world at the end of 1931 at 541,600,000,000 Marks. The private debt of the world about the middle of the year 1932 is put at 252,628,000,000 Marks.[26]

The leading creditor country is now the United States, followed closely by England and at a respectable distance by France and Holland.

It was the War that turned the United States into a creditor country. France began to export capital in 1921 and soon after the War England assumed her old role of an international lender on a large scale. Germany had lost all her foreign assets and became an importer of capital.

Between 1923 and 1929 about equal amounts were invested abroad by the United Kingdom and the United States—about 3,000 million dollars. The leading borrowers were Germany and Australia.[29]

About 1928 the net foreign assets of the United States reached a total of 6,500—8,500 million dollars (excluding War debts). British long term investments were valued at 20,000 million dollars. Germany, apart from Reparations, owed at the end

[26] W. A. April, pp. 326-27.
[29] League, Depression, p. 31.

of 1928 about 1,900 million dollars on long term account and 1,000 million dollars on short term account.

The income of the United States earned abroad in the form of interest in 1928 has been estimated at 5·7 dollars per head of the population, and of England no less than 29 dollars. The obligations on account of interest of some debtor countries, particularly those exporting food-stuffs and raw materials, were as shown below:

Net interest owed abroad per head of the population in 1928.[30]

	Dollars
New Zealand	27·6
Australia	27·5
Canada	22·3
Argentine	17·4
Union of South Africa	9·8
Norway	6·7
Denmark	3·8
Hungary	3·0

It can be easily understood that agricultural countries with heavy foreign obligations found themselves in a position of great difficulty when the prices of their products began to fall. Gold imports declined and ceased, and finally, gold began to flow in the direction of creditor countries. Between 1928 and 1929 capital movements from the United States fell by 561 million dollars and the total overseas issues on the London market declined from £ 143 millions to £ 94 millions. As a consequence of an adverse balance of payments, the surplus of gold, or gold stocks over legal minimum gold requirements in debtor countries began to decline:

[30] League, Depression, p. 36.

Surplus gold in million dollars[31]

	End of 1928	June 1930	June 1931
Argentine	147	65	..
Australia	167	71	..
Germany	300	292	34
Spain	159	146	57
United Kingdom	178	269	336
U. S. A.	1420	1967	2245
France	139	520	831

Between 1928 and 1930 there was a fall in the gold reserves or foreign assets of the following countries, all of which had been hit hard by the fall in the prices of food-stuffs: Argentine, Australia, Brazil, Canada, Columbia, and Hungary. The crisis in raw materials affected the following countries: Bolivia, Egypt, Eucador, India, Mexico, Dutch East Indies, Peru, Uruguay, and Venezula. Gold stocks of the United States increased from 4,332 million dollars in December 1928 to 4,787 million dollars in December 1930, and those of France from 1,271 million dollars to 2,099 million dollars in the same period.

Before the abandoment of the gold standard by England towards the end of September 1931 the following countries had already suspended the gold standard officially: Uruguay (December 19, 1929), Argentine (December 16, 1929), Australia (December 17, 1929), and Mexico (July 25, 1931). In addition, the currencies of the following countries had depreciated in relation to gold before September 1931: Turkey, Spain, Paraguay, New Zealand, Venezula, and Bolivia. New Zealand and Uruguay had reverted to *de facto* gold parity, but there had been no return to the gold standard in Spain and Turkey.[32]

The heavy losses suffered by debtor countries in consequence of the fall in prices, the weakening of their financial position and

[31] *Ibid*, pp. 96 and 230.

[32] League, Economic Survey, 1932-33, pp. 222-23.

the breaking of their exchanges had created a situation which was bound to react on creditor countries. The chief cause of the trouble, was the fall in prices. The League of Nations Economic Survey for the year 1931-32 refers to the steady and continuous fall in the prices of raw materials and food-stuffs and says: "The financial crisis which followed made it abundantly clear that it was the plight of the debtor countries, at once a main cause and the consequence of falling commodity prices, that was the darkest spot in the almost universal depression".[33]

As the economic situation in debtor countries grew worse, their demand for manufactured imports heavily decreased, which led to a further fall in commodity prices. The plight of the debtor countries was thus both a main cause and the consequence of falling prices.

The Financial Crisis of 1931

The story of the financial crisis of 1931 may be thus summarised.

The Creditanstalt, a large Austrian bank, had suffered heavy losses in 1930. In May 1931 it was found in difficulties again. The Austrian Government came to its help, assisted by substantial advances by the Bank of England and the Bank of International Settlements. For the time the situation was saved, but on August 7 the Austrian Government requested the League of Nations "to proceed to an examination of Austria's economic and financial difficulties and to seek the means of remedying them".

At the end of 1930 Germany's short-term indebtedness was estimated at 103,000 million Marks. The weakness of Austria revealed in May 1931, created a panic which spread to Germany and a run started on the Reichsbank, which lost 250 million dollars of its gold and foreign exchange in four weeks. On June 23, the President of the United States proposed a year's moratorium of reparation and war debt payments. Later the British Government announced that it would not require the payment of its share of

[33] *Ibid*, p. 70.

the reparations due on July 15. The Bank of International Settlements also rendered assistance in the shape of rediscount credit. An expert committee declared in the first week of August that withdrawal of short term balances from Germany was " not justified by the economic situation of the country " and a " Standstill Agreement " was reached in the middle of August by which arrangements were made for the " continuation of credits to the German debtors " under certain conditions. But in the first seven months of 1931 Germany lost 2,900 million Marks, of which 2,100 million marks came from the short term liabilities of the banks. However, as the result of international effort, the situation in Germany improved and the Bank rate was reduced from 15 per cent on August 1 to 10 per cent on August 12 and 8 per cent on August 19.[34]

When the run started on the German banks, the Bank of England began to lose gold. The Bank rate was raised but the drain continued. In the last fortnight of July the Bank lost over £30 millions. The uneasiness increased when it became widely known from the Report of the Macmillan Committee, published on July 13, that London had a large volume of short-term indebtedness. Its own short-term claims on Europe were smaller in amount and of little value on account of the financial situation of Europe.

The Bank of England borrowed £50 millions from French and American banks at the beginning of August and a further £80 millions was borrowed by the Government from the same sources. Still the drain continued. In the two months preceding September 20 the London money market lost over £200 millions. Between Wednesday morning (September 16) and Saturday midday (September 19) London lost over £43 millions of short-term foreign funds. On September 21 came the suspension of the gold standard.

The immediate cause of the breakdown of the gold standard in England was the drain of gold. But England's return to gold in 1925 was a mistake, and in view of her declining exports, quite apart from the drain of gold in 1931, it would have been impossible for her to remain on the gold standard much longer.

[34] League, Economic Survey, 1931-32, p. 76.

The Macmillan Committee rejected devaluation. They thought that the lowering of the value of the £ as a deliberate measure, after the return to gold in 1925, would mean the adoption of 'an entirely new principle' which would shock the entire financial world.[35] The events of the two months following the publication of the Report showed that the Macmillan Committee had over-rated England's financial strength and under-rated the strain of falling prices and declining demand on debtor countries and the reaction of this on creditor countries.

[35] p. 111.

CHAPTER XIV

THE CRISIS—(*contd.*)

CAUSES: MONETARY AND NON-MONETARY

Reference has been made in the preceding pages to the fall of prices which made debtor countries bankrupt and which ultimately led to the breakdown of the gold standard.

Why did prices fall?

In attempting an answer to this question we shall begin with the monetary theory of the crisis. Among others Sir Henry Strakosh (England) and Prof. Gustav Cassel lay emphasis on the monetary causes of the crisis.

The gold standard works automatically, provided gold is permitted to move in and out freely. Let us assume a given distribution of monetary gold among the nations of the world, which has produced a given level of world prices. Prices in different countries are never precisely the same, but a tendency to equality in the case of commodities which enter into international trade always exists. Suppose the general level of prices suddenly begins to rise in some countries. These countries will become a good market to sell in, and a bad market to buy in; they will begin to import goods heavily, while their exports of goods will decline. The equilibrium will be restored by the export of gold. On the one hand, the export of gold will tend to bring about a fall of prices (through the contraction of the gold basis of credit) in the countries where prices had risen, and on the other, it will raise prices, by enabling credit to expand, in the countries which import the gold.

This is the classical theory of distribution of the precious metals throughout the world through the mechanism of changing prices. It is assumed that when gold is imported, it does not disappear into hoards. If it does, prices will not be affected. India imported gold and silver on a large scale in the 16th and 17th centuries, but this import led to no considerable rise of prices, as the

precious metals were used in India chiefly for hoarding purposes. Similarly, if gold received by a country, say France or the United States, is not used for the expansion of credit, and simply locked up in the reserves of Central banks, prices will remain unaffected.

The mechanism of the gold standard is delicate and it may be easily thrown out of balance by a 'mal-distribution of gold' which fails to correct itself. For example, let us assume that one or two countries, somehow, acquire a strong pull on the world's stocks of monetary gold. Gold begins to flow to these countries, and it is hoarded by them. Their prices fail to rise, and may even fall. While the acquisition of gold by these creditor countries has in no way augmented their prosperity, the reduction of gold reserves in other countries may produce dire consequences. A process of wholesale liquidation may set in in the gold-losing countries. Suppose England is one of these countries. To guard its gold reserve the Bank of England will raise the Bank rate and take steps to induce joint-stock banks to raise their rates of discount. Borrowers will find it increasingly difficult to obtain accommodation, and will have to pay more for it. To meet their obligations some borrowers may be forced to sell securities and goods. This is the beginning of a period of deflation—of the contraction of money and credit and fall of prices.

Distinguished economists, whose names command respect both in the scientific and the business world, assure us that it was precisely thus that the fall of prices started. It is argued that the fall of prices was not due to the scarcity of gold. It is estimated that between 1913 and 1931 the world's stock of gold increased at an annual average rate of 4·7 per cent, while the demand for gold, as represented by growth in the production of 'basic physical commodities', from 1913-14 to 1929-30 increased at the rate of 1·86 per cent per annum.[1]

Between January 1, 1929 and June 30, 1931 the gold holding of France increased 74 per cent and of the United States 19½ per cent, while monetary gold in the possession of the rest of the

[1] *Facing the Facts*, edited by J. G. Smith (New York, 1932), p. 14.

world decreased 16 per cent.[2] During the same period the total gold stock of the world increased from 10,962 million dollars to 11,817 million dollars, or 8 per cent.

How did it become possible for France and the United States to draw gold from the rest of the world?

The answer is reparations and War-debts. The War made them creditor nations. They might have saved the world's gold stock from the strain which their creditor position imposed on it by agreeing to have the debts owing to them paid in commodities. But this they refused to do. On the contrary, they raised high tariff walls to keep out foregin goods.

Between January 1925 and January 1931 France and the United States received, on account of reparations and War-debt payments, 2,262 million dollars. In the same period their gold reserves grew by 1,520 million dollars. The connection between the import of gold by France and the United States and reparations and War-debts is clear:[3]

"The breakdown of the gold standard must therefore be regarded as the combined result of the obligation to pay reparations and War-debts on the one side, and the unwillingness of the receiving countries to receive payment in the form of goods and services on the other" (Sir Reginald Mant and Sir Henry Strakosh).[4]

The breakdown of the gold standard might have been avoided if France and the United States had re-invested their favourable balances in debtor countries. Before 1928 Germany paid reparations with the help of loans from the United States. But after 1928 the United States wanted all her capital for her own use. Boom conditions existed in American industry, and capital was required both for investment in American industry and for speculative purposes. It also seems that Germany had exhausted her borrowing capacity.

[2] *Report of the Gold Delegation of the Financial Committee of the League of Nations* (Geneva, 1932). Minute of Dissent by Sir Reginald Mant and Sir Henry Strakosh, p. 67.

[3] *Ibid*, p. 67.

[4] *Ibid*, p. 67.

Again, the collapse of the gold standard might not have occurred if the gold imported by France and the United States had led to a rise of prices in these countries. Their imports of goods would have increased and exports declined, and gold would have flown out. But they did not use the gold for monetary purposes. It " was simply buried in the vaults of the Central Banks. Not only was the level of prices of these countries not raised but was actually lowered as the price level fell in the rest of the world". (Mant and Strakosh).[5]

With this opinion Prof. Gustav Cassel is wholly in agreement. He says: " The payment of War-debts in conjunction with the unwillingness to receive payment in the normal form of goods led to unreasonable demands on the world's monetary gold stocks; and the claimants failed to use in a proper way the gold that they had accumulated ".[6]

This situation is described as the 'sterilisation of gold'. Sir Arthur Salter says:

" But as France and America did not need this extra gold it became in part 'sterilised', that is, it was not used as the basis of as much money as in the countries from which it had come. The net result of this mal-distribution of gold was therefore to reduce the total amount of money in the world, and thus to exert a depressing influence on the general level of prices ".[7]

The whole blame for the breakdown of the gold standard thus rests on France and the United States.

If this view is accepted, the crisis would appear to be a monetary phenomenon. Something went wrong with the world's money, and the whole system of production collapsed. Prof. Gustav Cassel insists that in dealing with the crisis what we have to explain " is essentially a monetary phenomenon ".[8] According to Prof. Verryn Stuart, the general fall of prices was caused 'by a shrinking of the quantity of money, particularly by a decrease in

[5] *Ibid*, p. 67.

[6] *The Crisis in the World's Monetary System* by Prof. Gustav Cassel (Oxford, 1932) pp. 71-2.

[7] *Recovery* (G. Bell, 1932), p. 39.

[8] Note of Dissent to the Gold Delegation Report, p. 74.

the velocity of circulation of money "[9]. A decrease in the velocity of circulation of money and credit is also a monetary phenomenon, and an inevitable consequence of deflation. When the process of liquidation sets in, there is loss of confidence, and money circulates less rapidly.

The view that the crisis was 'essentially a money crisis '[10], or was wholly due to a breakdown of the machinery of exchange, deserves closer examination. Agreeing with Sir William Beveridge that "there is a flaw in our machinery for making and unmaking purchasing power" and that it is not under control[11], we ask whether this is the whole account of the crisis. And then why did the machinery of exchange break down so suddenly? Are France and the United States really the villains of the piece? The world has not been able to avoid alternate inflation and deflation: it has failed to manager credit properly. Assuming that the failure to manage credit caused the crisis, to what extent must France and the United States be held responsible for what happened?

France

France has been accused of deliberately attracting gold to herself, of accumulating a huge gold and foreign exchange reserve "which was to play a predominant part in International politics during the subsequent years" (Paul Einzig).[12]

The causes which led to the import of gold into France were the following: (1) a favourable balance of payments, (2) reparation receipts, (3) return of French capital from overseas. During the depreciation of the franc capital had fled from France. Before M. Poincare took charge of the French finances in 1926, the franc had fallen to 240 to the £, which led many Frenchmen to sell francs. The flight from the franc resulted in the accumulation of foreign balances by France. Confidence in the franc returned on

[9] *Economic Essays in Homour of Gustav Cassel* (George Allen, 1933), p. 605.

[10] *The World's Economic Crisis* (George Allen), p. 163.

[11] *Ibid*, p. 175.

[12] Quoted by H. Withers in *Money in the Melting pot*, p. 38.

the restoration of budgetary equilibrium in France and the stabilization of the franc, and French capital abroad returned to France.

The influx of gold did not lead to inflation, but the charge of deliberate 'sterilisation' made against the French authorities is unfounded. "It appears" says T. Balogh, "that those who make the charge of wilful hoarding mistake for conscious tactics the shortcomings of the French banking system and of the gold standard in general".[13]

But France has a much better case than that. M. Rist says:

"One may assert, as does Sir Henry Strakosh, that the actual crisis is solely due to monetary factors, in particular to an insufficient utilisation of credit. It is difficult to prove it."[14]

M. Rist shows that between June 1927 and June 1929 there was an increase in the reserves of the Bank of France of 9,338 million gold (francs), but it was accompanied by an increase in bills and advances of 5,916 million gold (francs). After the autumn of 1929 till October 17, 1930, bills and advances decreased from 10,443 million gold (francs) to 7,832 million gold (francs), under the influence of the world depression started by the banking crisis of New York.[15]

"Normally a bank of issue", says M. Rist, "limits its action to meeting the demands for credit addressed to it; in a period of depression these demands do not arise".[16] In the two years following the *de facto* stabilization of the franc the growth of general prosperity increased the demand for credit on the Bank of France, and the Bank met it. After 1929 this demand decreased and the Bank's bills and advances fell. The reserves of the Bank increased "under the influence of causes which have nothing to do with its credit policy".

A further point may be considered. The flow of gold to France and the United States had reduced the monetary gold at the disposal of the rest of the world. The gold-losing countries might

[13] *Economic Journal for* Sept. 1930.
[14] *Essais sur quelques Problems Economiques et Monetaires*, Paris 1933, p. 109.
[15] *Ibid*, pp. 107-8.
[16] *Ibid*, p. 107.

have met the situation by economising the use of gold. They might have lowered the legal proportion between gold and paper, thus enabling a larger credit superstructure to be raised on a smaller gold basis. In the words of Mr. Hartley Withers it was necessary to "slim the Golden Calf".[17] The Golden Calf was not slimmed. The gold-losing countries, on the other hand, raised their rates of discount and thus deliberately started the process of liquidation.

If the Bank of France had pursued an erroneous monetary policy in not forcing the French business community to take advances when it did not want them, the monetary policy pursued by gold-losing countries was not less erroneous.

The charge of wilful sterilisation against France must be dismissed as not proved. We may accept M. Rist's conclusion that the re-distribution of the world's gold reserves was not the result of "any policy of governors of banks of issue, but of a group of circumstances which it was not in their power to control".[18]

United States

A high authority like Irving Frisher declares the charge of sterilisation of gold by the United States a 'myth'.

France, he says, "doubtless became possessed of surplus gold." This was only "partly true of America".

America imported gold during the War. "But upon this gold", says Fisher, "we speedily built such a credit structure and raised the price level so high as to require almost all of this gold as a base". Prices reached their high water-mark in 1920; they fell in 1920—22. Fisher admits that then there was temporarily an excess of gold in the United States, but "soon both our business structure and our credit structure expanded so much as to make our unused or so-called 'sterilized' gold more or less of a myth".[19]

The United States had a considerable amount of gold, but much of it was ear-marked as belonging to Europe. The gold

[17] *Money in the Melting Pot* by Hartley Withers (London, 1932), p. 43.
[18] *Rist. Loc. cit.* p. 115.
[19] *Booms and Depressions* by Irving Fisher (London, George Allen), p. 83.

that was free " was not great enough to justify much more than the credit currency created upon it ".[20]

In 1924-25 the Bank rate was raised in England to prepare the way for England's return to the gold standard, and the Federal Reserve authorities 'obligingly co-operated' by lowering the interest rates in New York. From 1925 to 1928 America lost 422 million dollars of gold. During the same period gold in the United States ear-marked as belonging to Europe increased from 13 to 35 million dollars.

Lower interest rates in New York not only drove gold out of the United States but stimulated stock exchange speculation. Fisher says:

" In a word we dismissed some of our gold foundation and at the same time built a debt structure over the place where the gold had been.

" Billions of debts and a gold base that was slippery—these two conditions had now set the stage for the collapse of 1929 ".[21]

Gold went to the United States and France because of reparations and War-debts. It is useless to blame these countries for not receiving payment in goods. The claims of national industry cannot be disregarded to please foreigners.

Non-monetary Causes

Is it permissible to speak of non-monetary causes at all?

Prof. Gustav Cassel's answer is 'No'. Whatever be the causes of the rise or fall of prices, the problem always remains a monetary problem.

Suppose there is an increase in the volume of production. Then the supply of money should be increased at the same rate. Prices will then neither rise nor fall.

Technical progress as a cause of the trade depression thus means nothing. It is primarily a question of money. " From 1895 up to the War ", Prof. Gustav Cassel argues, " the general level of commodity prices actually rose in spite of the unusually high rate

[20] *Ibid*, p. 83.
[21] *Ibid*, pp. 83-4.

of technical progress in that period ".[22] Prices rose because the supply of means of payment increased more rapidly than that of goods. If the supply of money had not become scarce in 1925—29 prices would not have fallen, and no trade depression would have occurred.

Prof. Gustav Cassel is willing to admit that non-monetary causes may disturb the monetary equilibrium, and thus bring about changes in prices. "This only means that monetary policy has not been strong enough to offer a sufficient resistance to these disturbing factors ".[23]

There are others who attach considerable importance to the psychological factor. They regard a depression as a crisis of confidence of gigantic dimensions. It is pointed out that the capitalistic system rests on psychological foundations:

" A considerable measure of general optimism is the psychological pre-requisite without which a capitalistic world economy, widely extended and dynamically progressive, cannot live ".[24] Prof. Gustav Cassel's answer to this would be that 'confidence', or optimism is not an independent factor, any more than demand and supply: " Monetary policy ought to be able, in spite of adverse psychological conditions to control the purchasing power of the currency ".[25]

The Gold Delegation Report attributed the crisis to various causes—partly monetary and partly of a financial, economic and political character. It attached considerable importance to 'economic maladjustments and instability in the post-War world' (para. 42).

Can all these maladjustments and causes of instability, financial, political and economic, be interpreted as monetary phenomena?

The Report draws attention to irregularity in international capital movements, which was due to a complex group of factors: (*a*) violent fluctuations of prices discouraged direct investments in productive enterprises in debtor countries; (*b*) instability of

[22] *The Crisis in the World's Monetary System*, p. 50.
[23] *Ibid*, p. 50.
[24] Dr. E. Wiskenmann in *Weltwirtschaftliches Archiv* for March, 1934, p. 240.
[25] *The Crisis etc.*, pp. 51-2.

currencies had the same effect; (*c*) stabilization of currencies at levels which in some cases did not correspond to the domestic price levels, caused speculative movements of short-term capital; (*d*) the growth of short-term investments was an important cause of financial instability—French investors, particularly, preferred this form of investment; (*e*) there was a reduction in England's share in international capital investments, and (*f*) lending by the United States was irregular in volume. The Report of the Gold Delegation next referred to profound changes in the structure and localisation of industries, both primary and manufacturing. Beet-sugar had again started competing with cane-sugar, and there was growing competition between European wheat-areas and those of North and South America and Australia. The industrial organisation was becoming more elaborate and more rigid, and the process of manufacture more complex. There was evidence of over-investment in certain industries, and over-investment " rendered production more difficult of adjustment to changing demand ". As a result the free adjustment of supply to demand had become much restricted: " The cartellisation of industry and various forms of price control, pools and control boards of primary products, valorisation schemes and their like have all tended to render the economic system unduly rigid."[26] Another cause of the increasing rigidity of the economic system was the comparative inflexibility of wages, and the heavy cost of the 'semi-fixed' charges for unemployment benefits and social services. Increasing rigidity in production and distribution implied 'loss of tensile strength'—an important source of various mal-adjustments.

On the side of demand, the Gold Delegation Committee noted that which the growth of production and wealth, consumers wanted more of non-essential commodities and services, so that demand tended to become more capricious.

This array of arguments did not impress Prof. Gustav Cassel and Sir Henry Strakosh. The years from 1925 to 1929 were years of progress. How could this progress have been achieved if all the maladjustments mentioned above had been accumulating

[26] Para. 55.

in an intensified form? The answer to this naive question is that the maladjustments were there and that sooner or later their combined action was bound to check progress. The check came in 1929.

Over-Production

Prof. Gustav Cassel characterises the belief that the capacity for production may develop faster than that for consumption as 'superstitious' arising from "a very defective understanding of the mechanism of uniform economic progress". In the 'normal state of development', we are told, 'consumption grows at the same pace as production', which is also supposed to be true of saving and the creation of fresh capital. "It is very deplorable", says Prof. Gustav Cassel, "that a great part of the world's financial press is ignorant of such an elementary truth".[27]

It is also an elementary truth that even in a planned economy, mistakes may be made in estimating demand or supply, and production may therefore exceed or fall short of effective demand. A capitalist economy is not a planned economy. When a capitalist economy is of world-wide extent, and the producers and consumers are separated by enormous distances, all forms of maladjustments are theoritically conceivable and actually possible.

We have no right to assume that as productive capacity increases effective demand must automatically increase at the same rate.

Suppose that technical advance relating to agriculture leads to a considerable increase in food production. New lands are brought under cultivation, and the yield of old lands increases, while the cost of production per unit falls. There is nothing inherently impossible in such a supposition. If demand for food was expanding less rapidly, producers whose costs of production were comparatively inelastic would be undersold by their rivals. Exports from less advanced agricultural countries would decline, and they would begin to complain of depression. As agricultural

[27] *The Crisis etc.*, p. 57.

production is difficult to curtail, stocks would accumulate, and prices fall.

It is seen that over-production in relation to effective demand can occur. It is with effective demand alone that we are concerned. In view of the enormous unsatisfied demand in the world for everything, overproduction in the absolute sense is impossible. But over-production that causes crisis—and it is with such over-production alone that we are here concerned—is over-production in relation to purchasing power. The masses of India could very well use all the products of Indian hand-looms and cotton mills, 3,000 million yards of British cotton goods, and an equal amount of Japanese piece-goods. Nor is there lack of hunger in India. But it is a question of effective demand or purchasing power, not of need.

When over-production occurs, prices fall because of supply exceeding demand.

Soon after the annexation of the Punjab prices of food-grains and raw materials fell heavily throughout the Province, which made revenue collections very difficult. The causes of agricultural distress are thus analysed in the Punjab Administration Report for 1849-50 and 1850-51:

"For the three first years after annexation the harvests, with a few isolated exceptions, were remarkably favourable. For twenty years, the agriculturists declare, they have never witnessed such crops of wheat and barley. Not only did the unirrigated lands usually under cultivation yield a particularly large return, but cultivation was greatly extended. Lands which in ordinary seasons were seldom sown, gave large returns. These circumstances, joined to the general peace and security of the country, and the fact that large bodies of disbanded soldiers and discharged employees had to turn attention to agriculture for a subsistence, all contributed to cause so great an increase of produce as to reduce prices to an unprecedented extent. The result of these different causes has doubtless been that production has exceeded consumption, and hence that while an abundance of food exists, there is not a sufficient market to secure its sale at remunerative prices."

Here was an agricultural crisis in the Punjab about 85 years ago which embarrassed both the Government and the people. Is it possible to interpret it as a monetary phenomenon?

The writer of the first Administration Report of the Punjab did not interpret it thus. He described the crisis simply as one of over-production of food. But suppose by a remarkable feat of clairvoyance, this writer had acquired a knowledge of monetary theory as expounded in our times by Prof. Gustav Cassel and Sir Henry Strakosh. How would he have explained the crisis?

"An extraordinary scarcity in the means of payment suddenly revealed itself during the first three years after annexation, so that prices of agricultural produce fell heavily. Decrease in the rapidity of circulation also contributed to the same result". That would be the monetary explanation, on approved lines, of the agricultural crisis of 1849-50. It strikes one as a little absurd.

From the point of view of wheat and cotton growers in the Punjab (and other parts of India) the present situation is more or less the same as that which arose in the Punjab 85 years ago. Since 1849-50 great developments have taken place in the means of communication and transportation. India is now a part of world economy, which it was not 85 years ago. But at the present time, as 85 years ago, while there is an abundance of food "there is not a sufficient market to secure its sale at remunerative prices." World production has exceeded world consumption.

In monetary language it would be said that there is not enough money to buy what has been produced at the old prices. If 85 years ago, when we had super-abundant harvests in the Punjab, somehow more money had been created prices would not have fallen either.

The question of over-production is a question of fact about which there should be no dispute. But over-production is alleged by some writers and denied by others.

Prof. Gustav Cassel considers it "a mistake to believe that production in these years [after the war] showed an abnormal rate of progress".[28]

[28] *Ibid*, p. 55.

It is estimated that the average rate of progress in post-War years was 3 per cent per annum, which was approximately the average pre-War rate of progress. "The whole idea," says Prof. Gustav Cassel, "that the rate of progress was exaggerated and that the exaggeration must necessarily be punished by a crisis finds no support in actual facts. No doubt there was an expansion in some branches. But that is a very common occurrence which usually does not seriously disturb the world's economy ".[29]

Irving Fisher argues similarly:

"Over-production can scarcely be itself the lasting force which keeps depression going year after year. Were it merely a matter of over-production, it would seem to me to be likely to correct itself more promptly and almost automatically.

"But it may still be true that over-production may precipitate liquidation of debts ".[30]

Prof. Jean Lescure, on the other hand, believes that the American stock exchange crash came at a time of "agricultural over-production (corn, sugar) ".[31] He says:

"To tell the truth, the fall of prices cannot be effectively mastered except by an increase of demand and consumption or by a restriction of supply ".[32]

M. Rist explains the reduction of consumption by referring to the fall in the price of silver which reduced the purchasing power of certain Eastern countries, and the difficulty in finding a market for cereals "due to super-abundant harvests of 1929-30 and the extension of cultivation since the War ".[33] The same was true of coffee. He insists again and again that the price level of 1925 was artificial. It was an American price level, produced by American conditions, which twenty countries of Europe also sought to maintain on their return to the gold standard. "The idea", continues M. Rist, "that this artificial level of prices could be maintained when, under the influence of peace, world production

[29] *Ibid*, p. 56.
[30] *Booms and Depressions*, p. 66.
[31] *Essays in Honour of Gustav Cassel*, p. 389.
[32] *Ibid*, p. 389.
[33] *Rist Loc. cit.* p. 336.

was bound to increase very rapidly, was an idea devoid of rational basis, and events were soon to show its impossibility ".[34]

Evidence for Over-Production

In discussing the evidence for over-production we shall first describe the technical changes which have transformed agriculture in the West, and which are so important as to be called an agricultural revolution.

As Prof. Gustav Cassel says, there was technical progress also in the whole period from 1896 to the outbreak of the War. But there was no such revolution in agricultural methods as has occurred in post-War years.

This revolution consists in the use of power-driven machinery in agriculture, and fruits of biological research in application to agriculture.

The industrial revolution began in England; the agricultural revolution began in the United States.

First, America learnt to use machines on a large-scale in large-scale farming, and then she started making them for other countries. The export of Combine Harvester-Threshers and Threshers, and of Tractors from the United States from 1925 to 1930 is shown below:

	Combines	Tractors
1925	1,720	45,946
1926	4,444	51,242
1927	4,705	58,279
1928	7,317	57,869
1929	10,887	60,155
1930	6,573	49,896
TOTAL ..	35,646	323,387

The principal exports were to four countries: Canada, Australia, Argentine and Russia.

In 1914, 270 combine harvesters were manufactured in the United States, and in 1929 about 37,000. In 1916 about 30,000

[34] *Ibid*, p. 167.

tractors were manufactured in the United States; in 1928, about 853,000 tractors were in use in that country.[35]

It is estimated that the value of the equipment per farm labourer in the United States was 2,000 dollars in 1925 as compared with 36 dollars in 1870.[36]

The use of the combine harvester saves time and labour:

" The combine harvester cuts the heads of wheat, leaving the straw standing, it carries the heads into a threshing drum, threshes, winnows, and bags the grain; it weighs the bags, and they are then removed ready for despatch to the railway-siding. Machines are made to cut a 10- to 15- foot swathe, and with their aid two men can complete the harvesting of 50 acres of wheat per day. Grains need not be man-handled at all from the field right through to the bake-house. For the most effective use of the combine harvester, the standing crop must be completely ripe and sufficiently dry to allow the wheat to be bagged within a minute of its being cut; moreover, the machine is only economical in use where large areas of wheat are harvested ".[37]

It is stated that in the United States a combine harvester thresher usually harvests and threshes wheat at a cost of about 3—5 cents a bushel; the cost of threshing alone with the header or binder is more than 10 cents a bushel. As for the saving in time, it is found that a combine harvester would harvest and thresh an acre of wheat with a yield of 15 bushels in three-quarters of an hour; with the sickle and the flail, for the same amount of work 35-50 hours of labour would be required.[38]

The area ploughed per day in Europe with a single furrow plough driven by a pair of horses or a team of oxen varies from three acres to less than one acre. The average in England is probably less than ¾ acre. In the Punjab a pair of oxen will plough about one acre in a day. One man with a 50 horse-power

[35] *World Agriculture* (Royal Institute of International Affairs). Chapter III (Oxford, 1932).

[36] *The Agricultural Crisis* (League of Nations, 1931). p. 17.

[37] *World Agriculture*, p. 37.

[38] *Ibid*, p. 39.

tractor can plough up to 20 acres per day. "The tractor-drawn seed drill can sow from 70 to 80 acres as against 10 to 15 acres with a horse-drill in England". With the ordinary drill about one acre is sown in the Punjab in a day, and with the automatic drill 3-4 acres.

We further learn that in certain cotton States in the United States each worker can look after 10 to 20 acres of cotton, but in Texas and Oklahoma, with the use of large machinery, 100 acres per man can be cultivated.[39] In the Punjab 2 pairs of oxen and 3 men can, on an average, manage 28 acres of cotton.

Biological improvement has proceeded side by side with mechanical progress. New types of wheat have been evolved which have enormously extended the area under wheat. It is estimated that through this means 100,000,000 acres have been added in Canada alone to the world's possible wheat fields. Certain types of wheat enabled the wheat belt of Canada to be extended west to the Rockies and then north up to the Peace River District. Further:

"The work initiated by Farrer in Australia has certainly doubled the potential wheat belt, and similar work has resulted in opening hundreds of thousands of square miles in the semi-arid acres of Russia and of Russian Asia. The gigantic farms of the U. S. S. R. are indeed mostly in areas which could not, in normal years, have produced wheat until the plant-breeders evolved the new types".[40]

The researches of Dutch plant-breeders in Java have increased the yield of sugar there more than three-fold.[41] The meaning of biological and mechanical progress as affecting agriculture is not full realised by those who insist that the crisis was due solely to monetary factors.

The average growth of production at the rate of 3 per cent per annum does not bring out the significance of the much more rapid rate of growth in the production of wheat, other cereals and coffee. Important consequences may flow from the over-produc-

[39] *Ibid*, pp. 41-2. [40] *Ibid*, p. 45. [41] *Ibid*, p. 46.

tion of a limited number of agricultural products, even when the rate of growth of production in general is not very remarkable.

"There can be no question," says *World Agriculture*, "but that the improvement of methods and systems of production have already much complicated the serious problem of adjusting agricultural output to market requirements".[42]

Reference has been made above to Russia. Her re-appearance as a seller of cereals and other products also contributed to the downward tendency of prices.

WHEAT

We are particularly interested in Wheat. It is also the most important cereal.

"The depression in agricultural products is at the bottom of the general crisis; the depression in cereals is at the bottom of the agricultural depression".[43]

The depression in wheat, we may add, is at the bottom of the depression in cereals. The prices of coarser grains rise and fall with the price of wheat.

The following statement, borrowed from *The Agricultural Crisis* shows the world production of wheat:

World Production of Wheat Average 1909-13=100.

	Average 1925-30
Europe (excluding U. S. S. R.)	98
Canada	214·8
U. S. A.	119·7
Argentine	165·0
Australia	172·0

Incidentally we may note the heavy decrease in the imports of wheat, between 1929 and 1936 into France, Italy and Germany, France from 1,390,000 tons to 517,000 tons, Italy from 1,737,000 tons to 525,000 tons, and Germany from 2,107,000 tons to 73,000

[42] *Ibid*, p. 18.

[43] *Ibid*, p. 22.

tons. In 1924-25 the quantity of wheat exported from India was 1,111,691 tons valued at over 17 crores. Wheat exports practically ceased in 1932-33 and 1933-34 (2,000 tons in each year). Their revival in recent years is partly due to the laying in of 'security stocks' on account of the war danger. Scarcity conditions in Europe have also assisted exports.

According to *Wheat Studies* of the Food Research Institute, California, 'total utilization in 1936-37 was not significantly different from that of 1928-29, despite the growth of population in the interval' (Dec. 1937 issue). Attention is drawn by the *Wheat Studies* to the attempt of every country to achieve self-sufficiency in regard to wheat. The wheat situation is one of the factors 'that now-a-days determine the outbreak of *de facto* wars' (p. 156). The acquisition of 'security stocks' thus affords some 'cushion' for price declines that large crops tend to bring. In regard to the future course of wheat prices *Wheat Studies* said: "With sown wheat acreage anywhere near current levels, only important resumption of the upward trend in wheat utilization can be expected to prevent a recurrence, sooner or later, of price-depressing surpluses" (p. 157).

The price of wheat, after rising above Rs. 3 per maund, has again fallen.

COTTON

The World Production of Cotton is thus estimated:

	Millions of quintals	Per cent
1913	48·5	100
1921-25, average ..	46·4	96
1926	61·5	127
1927	51·9	107
1928	56·9	117
1929	56·4	116
1930	56·0	115

Between 1926 and 1930 production was from 7 to 26 per cent higher than in 1913. The heavy fall in the price of cotton in 1929-1931 (in August 1931 the United Kingdom index number of the price of cotton—American middling, had fallen to 41·1 as compared with 100 for 1925-29), and the growth of stocks suggest that there was an over-production of cotton.

The following statement compares the world production of cotton in 1936-37 with the average of 1923-24 to 1927-28:

COTTON. PRODUCTION IN THOUSANDS OF QUINTALS

	Average 1923-24	1936-37
U. S. A.	30,704	26,858
	57·72%	40·17%
India	10,324	11,443
	19·44%	17·12%
China	4,287	8,486
	8·06%	12·69%
U. S. S. R. ..	1,414	7,700
	2·66%	11·52%
Egypt	3,191	4,244
	6·0%	6·35%
Brazil	1,296	3,920
	2·44%	5·86%
Total production of 13 countries ..	53,190	66,855
	100	125·69
Total world production ..	54,070	68,600

(Source: International Review of Agriculture, Rome, Nov. 1937.)

The *International Review of Agriculture*, Rome, thus commented on these figures: "Thus the structure of the world cotton market has undergone very important changes in regard to production, in that all the cotton-growing countries have extended their production at the expense of the United States (Nov. 1937. P. 360 E).

It is seen that world production increased by over 25 per cent. The share of Brazil, China, and U. S. S. R. in world production has very considerably increased.

Inter-action of Monetary and Non-Monetary Factors

It is impossible to deny the fact of agricultural over-production. Given this over-productions, prices of agricultural products were bound to fall. And it is important to note that they began to fall before the stock exchange crisis in New York in October 1929.

The fall of agricultural prices reduced the income of agricultural countries. In view of the growing competition in the supply of agricultural products, some countries, as, India, found it difficult to maintain their position in world markets. This further reduced their purchasing power.

Even when the fall of prices and the diminution in the quantities exported are limited to a comparatively small number of commodities, the effects may be serious if large numbers of people are concerned in their production. For example, the disappearance of wheat exports, the fall in the exports of cotton, and the heavy fall in the price of these staples, have literally brought agriculture in the Punjab and other parts of India to the verge of ruin.

The agricultural depression has affected over 70 per cent of the population of India. The total population of the world in 1930 is estimated to be 2,013 millions, of whom 1,301 millions, or about 65 per cent, were dependent on agriculture.

The impoverishment of such large numbers inevitably reduced the demand for the products of industrial countries.

Stanley Jevons connected depressions in the Lancashire trade with famines in India. But from the point of view of the agriculturist, agricultural over-production has the same serious effects as a famine. In a famine agricultural income falls, though prices go up, because less is produced. At the present time plenty is the cause of poverty.

Industry

We have seen that technical progress has profoundly altered the relation of world supply to world demand in the case of primary products. Such changes are called structural.

Side by side with the transformation of agriculture the structure of world industry has also changed.

Technical improvements and rationalisation have enormously increased the producing capacity of mining, metallurgical and manufacturing industries. Great as was the waste caused by the War, recovery was rapid, thanks to applied science and organisation. Of this, the ship-building industry is a striking example.

The gross tonnage of world shipping in 1914 was 49·1 millions. The destruction of shipping during the War caused an abnormal rise in freight rates, but as soon as the War ended the ship-building industry, aided by subventions began to expand, and ignoring a slight fall in 1924, the tonnage increased steadily till 1931. Already in 1919 the gross tonnage of world shipping amounted to 50·1 millions, or 3·6 per cent more than in 1914. In 1931 it rose to 70·1 millions—an increase of 43 per cent as compared with 1914. It may be thought that this increase was called forth by the growth of foreign commerce. But in that case freights should have risen, or at any rate, not fallen. But during this whole period, excepting one year, freights steadily moved downwards, the index number (1913=100) falling from 427 in 1920 to 106 in 1929 and 82 in 1930. As Moretti in a brief but excellent study of the subject says, we find ourselves confronted with a singular phenomenon, which is that ships were launched annually in numbers which form a strong contrast to ships demolished (which means that it was not merely a question of replacing old vessels), to the downward movement of freights and to the state of profund depression which has characterised in these past few years the navigation of the world (*Annali di statistica e di Economia*, Vol. I).

It would not be incorrect to speak of over-production of ships in this period, over-production in relation to the total mass of goods to be carried.

The ship-building industry is of national importance and non-economic motives have played an important part in the expansion of world shipping.

There is keen competition among the main shipping lines, but

that does not prevent the existence of rings, pools and agreements in the shipping industry whose object is to soften this competition.

Non-economic motives have played an important part also in the development of other industries. In India the decline in manufactured imports during the War subjected the people to great hardships and acted as a stimulus to industrialisation. The rise in the price of manufactured goods during the War encouraged the foundation of new and the expansion of old industries. Later the fiscal needs of the Government led to the imposition of higher tariffs on imports, and after the adoption of the policy of discriminating protection in 1924 the pace of industrialisation was accelerated.

The War directly and indirectly stimulated industrial production, but even before the War forces were in operation which would have in time profoundly modified the structure of the world's industrial economy. The industrial Revolution had made Enland the workshop of the world, but gradually British methods of manufacture were copied by other countries, which began to compete with England in their own and foreign markets. By the end of the 19th century England's advantage over other countries had grown substantially less and at the time of the outbreak of the War England, though still maintaining her lead, was compelled to fight for her markets in a way she had not done before. The growing commercial rivalry between England and Germany is regarded as one of the pre-disposing causes of the Great War.

The industrial development of the United States, Germany and Japan may be easily traced through the growth of imports from these countries into India.

The growth of Indian production in post-War years was remarkable. A new iron and steel industry had been founded with a producing capacity of 600,000 tons of finished goods. The growth of the cotton mill industry has steadily reduced the demand for British piece-goods. The progress of the match and sugar industries has rendered India independent of foreign sources of supply and considerable progress has been made in the production of soaps and other toilet requisties, cement, paper, boots and shoes and other goods.

Excepting Japan, the total volume of industrial production in agricultural countries like India, Brazil, the Argentine and Canada is however small. According to estimates of world production made by the League of Nations the percentage share of the more important countries in the total is as follows: U. S. A. 31·3 per cent, Great Britain (weighted index) 12·9 per cent, France 10·1 per cent, Japan 5·9 per cent and Belgium 2·2 per cent. Still the growth of industrial production in agricultural countries is of some significance from the point of view of world economy. In 1929, as compared with 1913, there was an increase of 20 per cent in the industrial production of industrial Europe and no less than 71 per cent in that of the United States.

Both in 1919 and 1920 the industrial production of the world was below the pre-War level. But in 1925 the pre-War level of industrial production was reached and thereafter progress continued till 1929:

National Indices of Industrial Production. 1925=100

	1926	1927	1928	1929
France	116	102	119	130
Germany	95	120	120	122
Poland	98	123	138	138
Sweden	103	108	104	127
United Kingdom ..	77	111	105	113
U. S. S. R.	139	164	198	223
Canada	117	125	138	154
U. S. A.	104	102	107	114

As compared with 1925 the estimated increase in the population of Europe was 5 per cent, North America 6 per cent, and rest of the world 3 per cent. There is little doubt that industrial production was increasing in the years immediately preceding the depression at a more rapid rate than demand.

But demand does not necessarily depend on numbers. It is perfectly conceivable that demand for finished goods should increase when the population is stationary or even declining. That may be so if the standard of living rises and the purchasing power

of the people increases sufficiently to enable them to maintain a higher standard of living.

The purchasing power of the people remaining the same, suppose Indian mill production suddenly doubled. The result would be the accumulation of stocks and a large drop in price, for even if imports of foreign cloth ceased altogether, the output of Indian mills and hand-looms would be in excess of the demand as determined by the present purchasing power of the people.

It is in this sense that the term over-production is to be understood, particularly when it is applied to finished goods. In the case of crude food-stuffs, such as cereals, there is a physical limit to human consumption, and even a slight excess of supply may bring about a collapse of prices.

Income and purchasing power set the limit to the demand for industrial goods. Our review of industrial production (incomplete as the figure are) shows a rapid growth and suggests the conclusion that the world's purchasing power did not increase at the same rate.

We may conclude that structural changes in industry (including under this expression improvements in organisation and technical progress on the one hand and the rise of industrialism in agricultural countries on the other) in post-War years were of a nature calculated to upset the relation of production to consumption. The actual point of time when the crisis broke out is a matter of less importance.

Conjunctural Expansion and Structural Over-Production

Such over-production as we have been considering has nothing whatever to do with conjunctural expansion which is a characteristic feature of the trade cycle. A trade cycle begins with a state of quiescence, which is followed successively by improvement, expansion, feverish activity, decline and collapse. A comparatively low rate of discount encourages borrowing, and as the rise of prices makes it profitable to borrow, there takes place a general expansion of trade. Finally, when the rate of discount

is raised and credit contracts, liquidation begins, which results in the elimination of unsound business. Trade returns to the state of quiescence from which it started and the whole cycle begins anew.

These are the well-known phases of conjunctural expansion and contraction.

But the expansion of industrial and agricultural production since the War is of a different order.

Let us recall the case of wheat. The mechanical and biological progress which has increased the area and yield of wheat in the principal wheat-producing countries of the West, as we have seen, began long before 1929. Its causes do not lie in the favourable conjuncture of the years 1927-29.

Not merely the supply but the demand for wheat has undergone profound changes. Italy, France, Germany and Czecho-Slovakia were considerable importers of wheat. Now they are 'autark' or self-sufficient.

With the growth of civilization there is a tendency in European countries to consume less wheat but more meat, fruits and vegetables. While production is increasing, demand tends to contract. It is estimated that between 1916 and 1928-29 the production of wheat flour in the United States increased only 5·5 per cent, while the population increased 20·5 per cent. In spite of growing prosperity, rather because of it, the consumption of wheat flour per head of the population in this period in the United States fell by 15 per cent.

Dr. Guenter Keiser describes this interesting situation as a 'tendency of towards a structural aversion from the use of bread,' and says that this tendency is observable in all countries.[45] Not in India yet. Our masses have not yet become so highly civilised as to regard bread with aversion.

The development of wheat production in European countries which formerly imported wheat, has, as has been stated above, taken place behind tariff walls. The result has been to change the character of the world wheat market, the existence of which was

[45] *Laesst sich der Weizenpreis steigen*, by Dr. Keiser, in Wirtschaftsdienst, May 11 and May 18, 1934.

never questioned before. A world wheat market may still be said to exist, but it is a market in which domestic prices are different in different countries, the differences being due, not to cost of transportation, but heavy import duties. Dr. Guenter Keiser may well ask: *Gibt es noch cinen Weizenweltmarkt?* (Does a world wheat market still exist?). In the *World Economic Survey, 1931-32*, attention was called to the wide variations in wheat prices in different parts of the 'world' market, and their inharmonious rise and fall. For example, between January 1929 and January 1932, the price of wheat, reckoned in United States cents per bushel of 60 lbs., fell in Argentine from 113 to 44 cents (61 per cent) and in India from 158 to 60 cents (62 per cent), but it rose in Germany from 135 to 147 cents, and in France from 164 to 179 cents. The lowest price in the same month (January 1932) was 44 cents in Argentine and the highest 179 cents in France—the French price being four times the price of the same cereal in the same month in Argentine.

All this meant a change in the structure of the market, which inevitably reacted on the price of wheat.

The growth of production owing to technical improvements in the methods of production, the decline in demand owing to changes in the habits of consumption, and, finally, non-economic factors which have created national wheat markets and national wheat prices—these are structural changes having no connection whatever with cyclical oscillations of trade.

We are not unfamilar with structural changes. There was one such change when the opening of the Suez Canal opened the markets of the world to our wheat. Before India began to export wheat, the price of wheat in India was uninfluenced by world factors. The development of railway construction, which linked the internal markets with the ports and the linking of Indian ports with foreign ports through sea communication, transformed the Indian market. The price of wheat began to rise and fall in sympathy with the world price; very often the price rose, in spite of increased production, because of increase in the foreign demand,

and very often the price fell, when production had declined, because of a reduction in the foreign demand.

Manufacturing industries furnish many examples of structural changes. The transition from hand-work to factory production is a structural change. India is still in a stage of economic transition in this sense, and we are witnessing not one but bundles of structural changes in industry. Hand-made paper has entirely disappeared (excepting such paper made in Indian jails). Paper made from Sabai grass in modern factories is one change; paper made from bamboo pulp, when this can be successfully done, will be another change. Even the world paper-making industry is under-going changes which are described as 'structural.'[46] Another example is furnished by the market in cotton piece-goods. Its structure has changed since the War, and it is still in a state of flux. We may expect to see in the future the gradual elimination of imports, a decrease in the proportion of hand-woven stuffs, and a steady growth of mill-production.

It is clear that such changes are independent of rhythmical expansion and contraction of business which are so largely influenced by the supply of credit money. But can monetary policies be so framed as to counteract the effect of structural changes in production on prices?

The question may best be answered by putting another. Suppose there is a famine and food cannot be imported from outside. Is it possible to devise a monetary policy which will prevent the price of food from rising?

The answer is 'No'. Money is no substitute for food. If people could eat rupees in a time of famine, scarcity of food might be relieved by the consumption of silver. But if it is food that is wanted, and food in quantities sufficient to relieve every one's hunger is not available, price must go up. The problem is not a monetary one. It is a question of demand and supply, and so long as the forces of demand and supply have free play, the result of their

[46] See Strukturwandlungen am Weltmarkt fuer Pappe, Holzschliff und Zellstoff, by Dr. W. Twerdochleboff, in W. A. for May, 1934.

action must be to raise the price of food. Price can be prevented from rising either by reducing demand or by adding to the supply.

Over-production is the converse of the same problem. Famines, as we have said above, are Nature's crises. Over-production at the present time is not so much due to the bounty of nature as to the genius of man in utilizing the forces of nature for his own purposes. But the problem is essentially the same as in a time of famine: to prevent prices from falling either supply must be reduced or demand increased. It is not a monetary problem.

SILVER

What was the role of silver in the present depression? Sir Arthur Salter says:

"I will not say that silver counts for nothing at all in this depression, but my own strong view is that it occupies a very small place indeed in it."[47]

But in *The Crisis in Agriculture* we read:

"Now it is certain that the purchasing power of hundreds of millions of inhabitants in certain large countries cannot develop normally on account of disturbed general conditions, aggravated in a part of Asia by the collapse of the silver currency."[48]

M. Rist attaches more importance to silver than Sir Arthur Salter:

"Another aggravating circumstance was the fall in the price of silver, low already in 1929, and which has fallen perceptibly since 1930, in reducing suddenly the purchasing power of countries of the Far East, where silver has remained the standard of value."[49]

In explaining under-consumption, Paul Einzig thus refers to silver:

"As a result of the depreciation of silver during the last few years, the purchasing power of China, India and other Eastern countries has been severely reduced. The price of silver declined

[47] *The World Economic Crisis*, p. 22.
[48] *The Agricultural Crisis*, p. 16.
[49] *Rist. Loc. cit* p. 336.

from 36*d*. an ounce in 1924 to about 12*d*. an ounce in 1931, as a result of which the purchasing power of half the world's population has been greatly reduced."[50]

The report of the Macmillan Committee also refers to "the disorganisation of trade with China and India and many other countries resulting from political and other forms of disturbance, and to a large extent from the fall in the value of silver" (para. 111).

In India Mr. S. K. Sarma has been fighting the cause of silver for a long time. In the preface to his *Papers on Currency and the Reserve Bank for India* (1934) he refers to the 'original sin' of closing the mints to the coinage of silver; the effect of the fall in the price of silver in recent years on the people of India is thus described:

"The silver which they purchased at varying rates, at 40d. and 50*d*. and even 72*d*. an ounce, now sells at 20*d*. an ounce. The holders of silver are practically ruined and their hoards have become of absolutely no value. And yet the rupee is our legal standard and measure of value" (p. ii).

It may be admitted that the fall in the price of silver has reduced the purchasing power of countries like China, which use silver as their standard of value. The case of India is different.

The rupee is our unit of account. It ceased to be the standard of value in 1893. It may have been wrong to close the mints to the free coinage of silver, but once the silver mints were closed to free coinage India's purchasing power ceased to be influenced by fluctuations in the price of silver.

The price of silver was about 40d. per ounce in 1893. Between 1899 and 1914 it fluctuated between 24 1/16*d*. (1903) and 30⅞*d*. (1907). In spite of the fall in the value of silver India prospered in this period. Exchange was steady at 16d. gold, and the purchasing power of India increased owing to the growing world demand, at rising prices, for her food-stuffs and raw materials. So far as India's purchasing power for manufactured imports was concerned, it did not matter at all what the price of silver was. Of

[50] *The world Economic Crisis* (Macmillan, 1932) by Paul Einzig, p. 47.

course the value of our silver hoards fell. Some of this silver may have been purchased before 1893 at more than 50*d.* per ounce.

The purchasing power of a country which does not produce silver, and whose currency has been given a fixed gold value above its intrinsic value, does not depend on the rise or fall in the price of silver. Such a country would lose by a fall in the price of silver only if she were compelled to part with her silver stocks, acquired at high prices, to pay for imports of goods and services.

Since September 21, 1931 India has exported a considerable amount of gold, but her imports of silver exceed exports of silver:

	Silver. Imports	In lakhs of rupees Exports
Averages		
1909-10 to 1913-14	10,88	3,67
1914-15 to 1918-19	4,56	1,77
1919-20 to 1923-24	14,18	2,66
1924-25 to 1928-29	19,62	2,85
Year		
1929-30	13,36	1,47
1930-31	13,46	1,81
1931-32	4,42	1,83
1932-33	1,63	90
1933-34	81	79
1934-35	4,45	4,07
1935-36	4,46	3,19
1936-37	13,87	28
1937-38	3,00	74

The purchasing power of India should be measured in terms of commodities that she produces and sells abroad—not in terms of silver which she imports.

Under normal conditions a country's purchasing power is a function of her annual income, not of the hoarded value of her past savings in the form of ornaments and bullion.

It may also be pointed out that if, somehow, the fall in the price of silver has actually reduced India's purchasing power, this loss of purchasing power has been more than counter-balanced by the sharp rise in the price of gold.

Wages, Interest and Taxes

Reference has been made above to the failure of domestic costs and prices in certain countries which returned to the gold standard, notably in the United Kingdom, to adjust themselves to the rate of exchange. The lack adjustment was due in part to the high level of wages and interest charges. According to the figures given by the Macmillan Committee, real wages in Great Britain, based on hourly time-rates of wages, in January 1930 were 13 per cent higher than in Holland, 23 per cent higher than in Germany, 42 per cent higher than in France and no less than 57 per cent higher than in Italy (para. 121).

The maintenance of the Bank rate in England at a level higher than in New York kept interest charges, as a burden on industry, high: "The significant fact is that adherence to the gold standard under these conditions prevented a fall in interest rates, which in its turn preserved the dead weight of past-obligations as a large factor in British costs."[51]

M. Rist refers to the high level of taxation, which retarded the adjustment of industry and commerce to the new conditions of competition.[52]

This has also an important application to Indian agriculture. The land reveune and water-rates form a considerable proportion of costs in Indian agriculture. While prices of agriculture products have fallen, these charges have not been sufficiently reduced. They constitute a heavy burden on agriculture in India.

One important cause of high taxation is the fear of war and the need for 'preparedness'. In Europe disarmament is discussed every year, but no country is sincerely willing to disarm. In India the great increase in military expenditure came after the War. Military expenditure has been reduced in recent years, but it still absorbs a high proportion of central revenues.

It may certainly be said that we have chosen the wrong time for trying costly constitutional experiments.

[51] *Monetary Policy and the Depression*, p. 6.

[52] *Rist. Loc. cit.*, p. 339.

RICE OF NATIONAL ECONOMIES

The rise of national economies is largely an effect of the depression. It is an attempt by each country to 'safeguard' its own position.

When exports decline, imports have necessarily to be cut down. When home-producers lose their foreign markets, they naturally desire to exclude the foreigner from their home-market. Hence the growth of protection all round.

Protection for agriculture is a new development. We tax foreign wheat ourselves, for having lost their markets abroad, our wheat growers are anxious to retain the entire home-market for themselves.

In European countries, like France, Germany and Italy, agriculture is protected as an industry of political importance. Between 1929 and 1932 while the price of wheat in India fell heavily, it was kept high in these countries by taxation of imports.

Germany has become self-sufficient in the matter of food-supply. She suffered terribly from the blocade during the War. The Allies taught her a lesson then, which she has not forgotten.

In Italy '*la bataglia del grano*' (battle of wheat) is being waged furiously. The object is to free Italy from the 'slavery of foreign bread' (*schiavitu del pane straniero*).[53] The 'Battle of Wheat', as Mussolini has said, 'responds to a fundamental necessity of the economic life of the nation.'[54] The population of Italy is increasing rapidly and Italy must grow more food—for the alternative is the 'slavery of foreign bread.' Large areas under swamps are being drained and rendered fit for cultivation. This *bonifica integrale*, as it is called, it is expected, will add 1,600,000 hectares (3,840,000 acres) of land to the cultivable area of Italy, and save an import of no less than 2,300,000,000 lire (about £ 40 million).[55]

As Mussolini said several years ago, Italian agriculture is entering an epoch of 'grande splendore'.[56] Unfortunately the

[53] *Mussolini. Discorsi* (Alpes, Milano), 1922. p. 122.
[54] *Mussolini. Discorsi*, 1926, p. 327.
[55] *Mussolini. Discorsi*, 1929. p. 253.
[56] *Mussolini. Discorsi*. 1925. p. 122.

'splendore' of agriculture elsewhere means depression of agriculture in India.

Mussolini dislikes urbanisation. "The people who abandon the land are condemned to decadence".[57] He gives to agriculture the first place in the national economy, as he wants to see Italy inhabited by a numerous, healthy and virile population.

Attention is drawn in *The Agricultural Crisis* to the growth of agricultural protection everywhere. "While limitations of every sort are placed on imports, export bounties are granted in certain countries". The duties on cereals particularly have been increased. "Faced with the competition of imports from other countries, European producers are determined to ensure a profit from their harvest and to protect it".[58]

But, as we have seen, in certain cases, it is not a question merely of profits of agriculture: it is a question of national self-sufficiency and political power.

Tariffs and other aids to industry have tended to deepen the gloom by adding to the difficulties of marketing. As M. Rist says, tariffs have enabled new and vast countries "to create a large number of industries, which have only served to double the means of production which were more than sufficient already".[59] The tendency towards over-production thus becomes still more emphasized.

CARTELLISATION

A remarkable feature of recent economic developments is the growth of cartels in the leading manufacturing countries. The object of these cartels is to regulate prices. Their rapid growth would lead one to suppose that productive capacity was increasing at a rate faster than demand so that remunerative prices could not be obtained unless competition was restricted by means of agreements among producers. In an article in the *Wirtschaftsdienst* for October 14, 1932 Dr. Udo-Horst Bychelberg, while reviewing the progress

[57] *Mussolini, Dicorsi,* 1928, p. 288.
[58] p. 20.
[59] *Rist. Loc. cit.* p. 339.

of cartels in different countries remarks that the free play of forces exists no longer in most of the spheres of our economic life. " In industries producing raw materials and half-finished goods ", he says, " there is rising a proud edifice of associations and cartels ", and manufacturing industries are taking care not to be left behind in this movement. The number of cartels in Germany which was 385 in 1905, rose to 500-600 before the War. For the year 1925 it is unofficially estimated at 1,50,0-2,000 and officially at 2,200-2,600. Of industrial raw materials and half-finished goods consumed in Germany the prices of about half are controlled (gebunden)—they are not determined by the free play of supply and demand. According to Liefmann, a recognised authority on cartels, cartels in Germany control about 400 commodities. The cartel has made its appearance in other countries as well *e.g.*, England. The British cotton industry has formed a cartel, and there is a marked tendency towards concentration in several other British industries. The branches of industry which are controlled or have an organised economy in England are mining, metallurgy, manufacture of iron and steel and other metallic goods and of machines and means of transportation, electro-technical industries, building industries, chemicals, paper, leather, textiles, and food industries. Most of these industries are also controlled in the following countries where they are of any importance: Germany, Austria, Czecho-Slovakia, Hungary, Switzerland, Holland, Belgium (including Luxemburg), France, Polyand, Italy and Spain.

In Germany, of all prices paid for goods, those paid for the products of cartellised indutries represent 10-20 per cent. The comparison of ' controlled ' prices with the total value of foreign trade yields the following interesting result:

	Value of cartellised products as a percentage of the total value of foreign trade of each country
Germany	70—80
England	38·9—48·9
France	46·6
Italy	12·4—25·0
Hungary	46·2
Czecho-Slovakia	44·3
Poland	43·5
Spain	22·3
Rumania	25·0
Belgium	45·5

Dr. Bychelberg) give an exaggerated idea of the importance of
Perhaps these percentages (for which we are indebted to cartels in the economic life of the countries concerned: a more reliable index of their importance would be the proportion of sales of cartellised products to total sales which, as we have seen, is 10-20 per cent in Germany. But this information is not available for other countries.

The fact, however, remains that in manufacturing industries and in those producing raw materials or half-finished goods, a 'controlled' economy is taking the place of free competition. This has some significance in the study of over-production.

CHAPTER XV

RECOVERY

Having discussed the causes, both monetary and non-monetary, of the crisis, we proceed to study world recovery from the great depression and the factors which have assisted it. The extent of recovery in India, industrial as well as agricultural, will claim our special attention.

"Since the middle of 1932", says the League of Nations' *World Economic Survey* for 1936-37, "there has been evident a slow and chequered, but wide-spread and persistent tendency towards recovery from the demoralisation of the great depression." (P. 32). The recovery has not been steady and continuous; it has been marked by "notable set-backs." One of these occurred in February 1933 when a banking crisis developed in the United States. The devaluation of the American dollar in January 1934 "changed the currents of trade, of capital transfers, and gold movements, imposing a heavy strain on the external balances of many European countries." In the countries of the Gold Bloc there was intensification of deflationary pressure, which restricted international trade. Wholesale prices of goods entering international trade continued to fall, and the majority of currencies continued to depreciate in terms of gold until the second quarter of 1935. The adoption of further trade restrictions by Germany in 1934 was another factor hindering international trade.

"Nevertheless", continues the League's *Survey*, "the signs of economic reorganisation were unmistakable throughout this period. Devaluation in countries of the Gold Bloc, which followed the conclusion of the Tripartite Currency Agreement between England, France and the United States on 26th September, 1936, removed the last considerable 'centre of deflationary infection', but even before that production was rapidly increasing, prices were rising and international trade was expanding over a wide area.

Dr. Gregory, Economic Adviser to the Government of India, writing in the *Review of the Trade of India* for 1937-38, describes the year 1936 as 'one of rapidly expanding production and of equally growing optimism'. As compared with the year 1929 (=100) world stocks of primary commodities fell to 93 at the end of 1936 and the index of primary production (79 commodities: base 1925-29=100) rose to 110 during the same year. There was also a substantial rise in the world index of industrial production, in the quantum of world trade, and in the world index of employment (16 countries, not including the Sovet Republic, where there is no unemployment). This progress continued until the first quarter of 1937, when signs of another depression became noticeable.

Factors of Expansion

How did the world overcome the great crisis?

First, an attempt was made to re-adjust supply to demand by controlling production. This amounted to an admission that production had exceeded consumption, or that the world crisis was not purely due to monetary causes.

'The most immediate practical by-product' of the world Economic Conference of 1935 was the determination to restrict the supply of primary products. Special attention was given to rubber, wheat and tin, but other products were not ignored. "By 1935 international restrictive schemes were actually or nominally in force for wheat, nitrates, rubber, sugar, tea, tin, copper, diamonds, potash; and there were national restrictive schemes for a number of other products including oil, cotton and cereal grains in the United States, coffee in Brazil and jute in British India."† In addition national schemes were evolved for the combined regulation of imports and internal production in many countries; there also arose national and international cartels for regulating the output, sales and prices of manufactured commodities, *e.g.*, the European Steel Cartel. Only a very few primary commodities escaped regulation, the chief exceptions being wool, timber and lead.

† *Slump and Recovery*, by Hudson (Oxford University Press), p. 230.

A second factor in recovery was currency depreciation. We may discus this in somewhat greater detail in view of the great importance attached in India to the maintenance of sterling exchange at $12\frac{1}{2}$ per cent above the pre-War level for reasons of credit and prestige.

The British overseas dominions. Even before England left the gold standard, Australia, New Zealand and Canada were off gold in the sense that in these countries gold for export was not freely obtainable at par in exchange for notes. "The fall of their currencies against gold, and in some cases against sterling, helped the Dominions in several direct and indirect ways." The Dominions 'obtained higher prices for their exports in terms of their own currencies'; their manufacturing industries 'obtained a measure of protection against imports.'† Further, Canada, Australia, New Zealand and South Africa produced gold, and the rise in the price of gold gave an impetus to this industry. As compared with the average of 1928-30, 1,974,000 fine ozs., the gold output of Canada increased to 3,285,000 fine ounces in 1935, that of Australia increased from 451,000 fine ounces to 889,000 fine ounces, that of New Zealand from 121,000 fine ounces to 165,000 fine ounces, and that of South Africa from 10,494,000 fine ounces to 10,774,000 fine ounces. India's gold production decreased from an average of 356,000 fine ounces in 1928-30 to 321,000 fine ounces in 1934, rising slightly in 1935, but India found gold from hoards to sell abroad. We have seen that since 21st September, 1931 India has exported over 321 crores worth of gold. "But for these exports", says Hudson, "India's task of squaring her external balance of payments would have been insuperable without drastic deflation, and a great curtailment of imports, or else a relapse of the rupee from the sterling standard". But, the Government of India would not permit the deprication of the rupee below the sterling level; they permitted gold exports.

We have seen that the British pound was considerably overvalued in 1925 when Britain returned to the gold standard. The abandonment of the gold standard by England gave the much-

† Hudson, loc. cit, p. 175.

needed relief to British exporting industries and materially assisted recovery in that country. More than half the world left gold immediately after England had done so. A few years later the United States devalued the dollar, as at the old rate the dollar was over-valued. But still an important Gold Bloc remained which valiantly endeavoured to maintain their currencies at pre-crisis or pre-war gold parities. The leader of this Gold Bloc was France; other prominent members were Holland, Switzerland and Belgium. The devaluation and depreciation of a number of currencies had created an entirely new situation unfavourable to the countries of the Gold Bloc. Their currencies were now very much over-valued, which penalised their exports. But they prepared to defend their gold parities by all the means in their power. The chief method employed for this purpose was deflation. If exports are declining because the currency of a country is over-valued, thus rendering its exports dear in terms of depreciated currencies, wages interest and other elements of cost must be drastically reduced. That is how equilibrium may be restored between internal and world costs and prices. But if a country carries a heavy load of public debt, taxation, to meet the annual interesct changes, is heavy. Heavy taxes raise industrial costs. Therefore it is necessary to effect economies in Government expenditure. An unbalanced budget and deflation do not go together. From time to time, in the countries of the Gold Bloc, economy drives were enforced, and attempts were made to reduce both Government expenditure and costs of production. "The result was, of course, a curtailment of purchasing power and an accentuation of the depression".† These haphazard efforts were succeeded by "'consistent deflation' which attempts to reduce budgetary expenditure, prices, rents, wages etc. through Government intervention." This 'method of self-castigation' was first adopted by Italy; Germany, Belgium, France and other members of the Gold Bloc followed Italy's example.

Commodity prices fell in these countries, but the result was an increase in the burden of public debt. "The burden of public debt made it impossible to balance the budget even on a lower plane."

† *World Finance* by Paul Einzig, p. 22.

The efforts of the Gold Bloc to resist devaluation by co-operation was fruitless. "Co-operation confined itself to technical arrangements and to vague schemes of tariff concessions which never materialised." It became evident that the Gold Bloc must break up. The weakest link of the chain was Belgium, and the Belga, Belgium's currency unit, callapsed after a heroic resistance in March 1935. The chief industrial rival of Belgium is England, and the heavy depreciation of sterling had given a great advantage to British over Belgian manufacturers. The Government of Belgium failed to reduce this disadvantage through deflation. A flight from the Belga began which 'assumed spectacular dimensions at the end of 1934.' The situation rapidly and miraculously changed after devaluation. "Trade activity increased as a result of better export possibilities and the moderate rising trend of prices." Confidence in banks was restored, and there was 'a heavy surplus of foreign funds from abroad, since the Belga inspired confidence at its devalued level.'

The experience of Holland and Switzerland was similar. Considerations of prestige in their case were more important than in that France. France had devalued its currency in 1928. After the depreciation of sterling and the scandinavian currencies, Holland and Switzerland alone were maintaining the value of their currencies at their pre-war parities. "It was considered a matter of prestige, both in Holland and Sitzerland, that their currency should be the last to yield to the world pressure for devaluation." They yielded finally. The collapse of the Belga and devaluation in Belgium led people in other countries to expect devaluation in the other countries of the gold bloc. Capital began to leave Holland, and then Switzerland. The flight from a currency can be easily explained. Suppose it is thought that the rupee is over-valued, and that Government would not be able to maintain the 18*d*. ratio. Then there is profit to be made by converting rupees into sterling at 18*d*., so long 18*d*. per rupee are obtainable, and re-converting sterling into rupee when exchange falls. A flight from the rupee would begin when the 18*d*. ratio ceases to inspire confidence. The flight from the Dutch guilder and the Swiss franc abated toward

the middle of 1936, and it appeared as if Holland and Switzerland had overcome the crisis which followed the devaluation of the Belga. In fact they had ceased to be the centre of world attention because of the crisis that had been developing in France, and which led to the devaluation of the French franc. That the Tripartite Currency Agreement was followed by devaluation in Switzerland, Holland and Italy, is well-known.

It may be incidentally noted that at the rate of 177 prancs to the sterling, the French franc stands below the parity of 1928 (124 francs to the £), and that at the rate of 4·67 dollars to the £, the £ sterling stands below its pre-war parity with the dollar. At 18*d.* to the rupee, the rupee stands 12½ per cent above the pre-war rupee—sterling parity. That would mean over-valuation of the rupee, unless it could be shown that our power of international competition had since the Great War, increased in the same proportion. Reverse is the truth.

When the Government of India state that a lowering in the ratio would do no good to any body except Indian moneyed and speculative interests, they ignore the beneficial results of devaluation to which the currency history of the world in recent years bears eloquent testimony. The Government communiqué, dated December 16, 1938 stated no scientific fact. It was propaganda on behalf of those who are interested in a high rate of rupee exchange, that is British capitalists and manufacturers, who would be directly injured by a lower rate of exchange in so far as it means more protection for Indian manufacturing industries, and foreigners who earn an income in India in rupees but remit their savings to foreign countries, in so far as a lower rate of exchange would reduce their savings in terms of foreign currency.

A third factor in recovery is re-armament. Dr. Gregory says:

"Regrettable though the acceleration of re-armament might be from the standpoint of human scentiment, it promised to intensify an already active demand, or at the worst, it held out hopes that, even if the general economic situation deteriorated, the average level of production and consumption could be held up. For re-armament

in itself represented a large and growing demand for basic materials and finished products of many kinds: it generated employment and incomes, and so sustained the demand for consumers' goods, and thus the level of employment in the industries producing such goods."

Hudson, however, does not find much evidence " to show any clear direct connection between re-armament and the rise in prices."† He is right in saying that the armament demand directly affected the metals used for special steel alloys essential to the manufacture of guns, munitions, and armour-plating. And yet the price of nickel and molybdenum did not change while that of wolfram and antimony actually fell in 1936.

And yet, it is more than probable that rearmament helped the prices of many commodities to rise, while it is certain that it has been the means of creating employment for many unemployed. Employment means wages, and more puchasing power, which strengthens demand. If at the same time the effect of restrictive schemes, trade agreements, quotas and conventions, cartellisation of industry, currency devaluation and exchange control is to raise prices, the increase of demand as the result of re-employment of large bodies of the unemployed would tned to raise prices further, or at any rate prevent them from falling again. In the judgment of speculators re-armament was one of the influences affecting commodity prices—and the speculators were not wholly wrong in their judgment. " Even the diamond market," says Hudson, " was reported to be helped by the demand for industrial diamonds in the manufacture of armaments. Wool for uniforms, cocoa for field rations, oil for tanks and warships as well as base metals and steel alloys for actual munitions, were all mentioned in market gossip as important influences on the course of prices."

It is estimated that the total world expenditure on armaments in 1936 was £3,000,000,000, which is from two to two and a half times the amount spent in 1933. Since then armament expenditure in every country has increased rather than decreased. Every country is re-arming, now for peace!

† P. 468. Loc. cit.

It is obvious that if more warships, aeroplanes etc. are built, employment is created not only in the industries concerned but indirectly in a great number of engineering, iron and steel and related industries. The German Institute for Economic Research has estimated that 60 per cent of industry is affected by armament expenditures.

National recovery has, lastly, been helped by the new methods of international trading, that is trade agreements, monetary and quantitative restrictions applied to international buying and selling, bilateral trade and clearing systems.

The new methods of trading have completely transformed the old trading organisation. Formerly trade was free, except for restrictions in the form of tariffs. Tariffs to-day are higher than before, but more important than tariffs is Government regulation of foreign trade through other means. Almost everywhere Government has intervened, directly restricting imports, and encouraging exports through subsidies and in other ways. Foreign trade is a state monopoly in Soviet Russia; but it is severely regulated in other countries.

If imports are greater than exports, gold will flow out of a country. No country can view the disappearance of its gold reserves with equanimity. On the other hand, there are certain essential imports which a country must acquire. Hence Government intervention in foreign trade. By instituting exchange control the State prevents unnecessary imports from coming into the country. The proceeds of special taxes leived on internal sales of particular goods may be used to grant subsidies to exports which the State wants to encourage. These exports provide the foreign currency which would be utilized to finance essential imports.

India's trade with Germany illustrates the results, wholly favourable to Germany and wholly unfavourable to India, of the new methods of trade control.

	Imports from Germany into India. Lakhs.	Exports from India to Germany. Lakhs.	Imports into India as a percentage of exports. Percentage.
1928-29 ..	15,84	32,32	49
1929-30 ..	15,79	26,57	59
1930-31 ..	12,38	14,26	87
1931-32 ..	10,20	10,28	100
1932-33 ..	10,39	8,59	121
1933-34 ..	8,89	9,84	91
1934-35 ..	10,11	7,17	140
1935-36 ..	12,34	9,50	129
1936-37 ..	12,13	10,03	121
1937-38 ..	15,32	9,67	158

In pre-crisis years we had a favourable balance of trade with Germany; in the year 1928-29 exports to Germany were about double the imports from Germany. This favourable balance has disappeared, and now imports from Germany actually exceed our exports to Germany. In 1933-34 imports from Germany were 9 per cent less than exports to Germany and in 1937-38, the imports were 59 per cent greater than exports.

" Flexible exchange rates," says the League's Survey for 1935-36, " quotas, subsidies and even traiffs directed by centralised authority, have been able to divert trade much more effectively than ever before." (p. 181)

State intervention has more and more taken the form of bilateral trade balancing. Triangular trade is becoming a thing of the past. A large proportion of the trade within Continental Europe is conducted by means of clearing agreements. Such agreements also govern much of the trade between Contenintal Europe and the outside world. As an example, under the ' English ' system of clearing first established in the Anglo-Germany Agreement of 1934, imports bear a definite proportion to the receipts from exports in a preceding period. German purchases from Denmark in a given period are a certain proportion of Denmark's purchases from Germany in the preceding period.

Industrial Recovery in India

The following table shows the profits of all industries according to the returns of companies published in the Indian Investor's Year Book:

Industrial Profits in India

	Total of all Industries.	
	Number of Companies.	Profits in Lakhs.
1928	308	1252
1929	308	976
1930	310	594
1931	317	358
1932	320	448
1933	324	573
1934	327	816
1935	334	926
1936	331	843
1937	173	626

(*Review of the Trade of India, 1937-38.*)

The figures for 1937 are incomplete and provisional. It is difficult to compare the profits earned in different years because (1) the number of reporting companies varies from year to year and (2) profits earned in a year are generally declared in the following year and different companies close their accounts at different dates. Still it is evident that industrial profits were high in 1928, that they sank to their lowest level in 1931 (reflecting conditions in 1930 and early part of 1931) and that they improved thereafter, the progress continuing till 1935, when they amounted to nearly three-fourths of the figure for 1928. In the following year they again declined. It is pointed out that the decline in profits in 1936 and 1937 is due almost entirely to the depressed conditions in the jute industry. When more information is available for 1937 it may be found that higher profits were earned in 1937 than in 1935.

The following table shows the fluctuations in the value of variable yield securities (industrial ordinary shares) in the month of March of each year:

VARIABLE YIELD SECURITIES

March	Index Numbers.
1928	104·3
1929	100·6
1930	93·6
1931	76·1
1932	63·8
1933	77·6
1934	92·8
1935	112·8
1936	103·7
1937	137·0
1938	108·5

The index fell to its lowest level in 1932, after which it gradually rose to 112·8 in 1935. Then there was a fall, but a very considerable rise in 1937, showing hectic activity. Throughout 1937-38 the tendency of the share market was downward and the fall became marked in December 1937 and the early months of 1938.

Capital's index of industrial activity is more comprehensive and it gives a fuller picture of the revival of trade and business:

Capital's Index of Industrial Activity

	*1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
Cotton manufactures ..	91·7	95·2	97·2	100·5	103·2	114·1
Jute manufactures ..	90·3	90·6	95·0	101·1	125·0	130·5
Steel ingots ..	68·2	83·4	96·7	102·0	99·8	106·9
Pig iron ..	60·3	76·2	92·5	106·2	107·0	113·4
Cement	67·4	73·1	88·9	101·4	113·6	133·3
Paper	85·0	92·4	94·3	101·8	102·4	108·6
Mineral production:						
Coal	86·6	87·2	99·9	99·9	96·1	112·3
Rail and river-borne trade ..	**	91·6	98·4	100·9	107·7	117·9
Financial statistics:						
Cheque clearances ..	85·5	89·3	96·5	99·2	102·1	101·5
Trade, foreign and coastal:						
Exports ..	83·4	93·1	101·0	102·4	118·9	110·2
Imports ..	90·9	83·4	101·0	99·8	96·1	111·2
Shipping, foreign and coastal:						
Tonnage entered ..	85·9	93·8	103·9	97·8	96·9	93·9
Tonnage cleared ..	87·0	94·4	105·7	96·0	98·4	97·1
General index, Monthly	81·3	87·3	97·1	100·6	105·2	111·8

General Index. 1935=100

	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1932-33 ..	76·6	75·8	80·7	77·2	80·0	85·5	78·9	82·3	84·8	85·0	83·5	85·2
1933-34 ..	80·5	87·2	84·9	85·3	90·0	84·2	85·8	88·4	88·5	86·8	92·7	93·7
1934-35 ..	90·5	95·1	94·2	95·8	97·0	100·1	101·0	98·6	100·5	98·7	97·8	96·0
1935-36 ..	97·5	97·9	99·0	101·6	100·9	101·2	102·7	102·7	101·8	100·7	102·4	99·1
1936-37 ..	102·2	103·3	104·2	103·4	102·0	103·5	103·6	104·5	107·2	110·3	106·7	110·7
1937-38 ..	115·7	107·5	111·9	111·1	104·7	114·2	113·0	112·4	111·3	113·0	110·5	115·8
1938-39 ..	111·8											

* The years are official years. Annual indices represent averages of monthly figures.
** Figure not available.

In this series the year 1935 is taken as the base year. The weighted geometric mean has been taken to form the General Index and seasonal fluctuations have been eliminated by means of twelve months' moving average.

Twelve Months' Moving Average

	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1932-33 ..							81·3	81·6	82·6	82·9	83·6	84·4
1933-34 ..	84·3	84·9	85·4	85·7	85·9	86·6	87·3	88·2	88·8	89·6	90·5	91·1
1934-35 ..	92·4	93·7	94·5	95·5	96·5	96·9	97·1	97·7	97·9	98·3	98·8	99·1
1935-36 ..	99·2	99·4	99·7	99·8	100·0	100·4	100·6	101·0	101·5	101·9	102·1	102·1
1936-37 ..	102·3	102·4	102·6	103·0	103·8	104·2	105·2	106·3	106·7	107·3	108·0	108·2
1937-38 ..	109·1	109·9	110·5	110·8	110·8	111·1	111·8	111·4	111·8	111·4	111·3	111·8
1938-39 ..	111·8											

The general index number (annual) shows steady and continued progress since the commencement of the series in 1932-33. It should, however, be remembered that increase of production does not necessarily mean increase of profitableness of the industry concerned. The output of jute manufactures in 1937-38 was 30·5 per cent greater than in the base year 1935 but profits in this industry, as we have noted above, have gone down. On the whole it is clear that there is greater industrial activity in India now than was the case in 1932-33. One may therefore speak of industrial recovery in India.

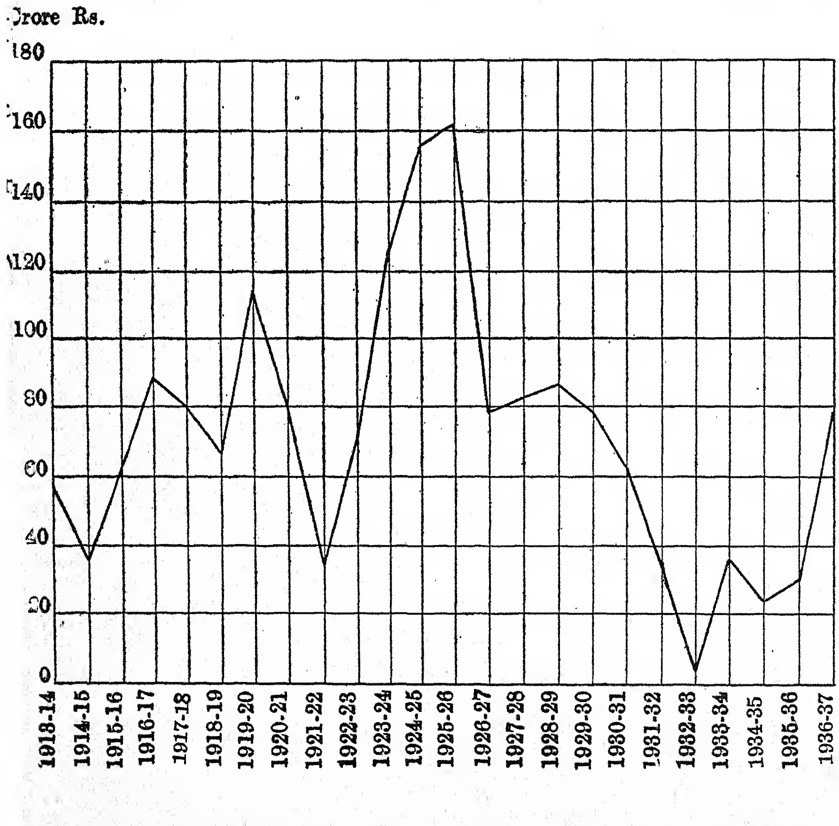
Causes of Industrial Recovery

There are two main causes of industrial recovery, protection and Government patronage of Indian industries.

Of the benefits of protection, a single example will be sufficient. In the year 1929-30, the imports of sugar amounted to over 1 million tons. Now the imports have practically ceased. Protection has created a new industry which has provided a new field for the employment of labour and capital.

Industrial recovery is assisted by protection because home industries are made more profitable by the exclusion of foreign goods. Most of the Indian manufacturing industries sell their output in India—the foreign market is of small importance as compared with the home market. It follows that even if there is no increase in the purchasing power of the people, the substitution of Indian

CHART NO. 28 NET EXPORTS OF MERCHANDISE, INDIA INCLUDING BURMA, 1913—14 TO 1936—37.



for imported articles in the consumption of the people will lead to a rise in idustrial activity in India.

The prosperity of the jute industry largely depends on exports. Jute, therefore, is an exception to the general rule.

There has also been a welcome change in Government policy in regard to stores purchases. The step-motherly treatment of Indian industries has largely ceased. The advent of provincial autonomy should further encourage Indian manufacturing enterprise, for one expects Indian Ministers to purchase Government stores as far as possible in India.

We have already noted that in certain cases (*e.g.* the cotton mill industry) the weakening of Japanese competition has had beneficial results for Indian industries.

Agricultural Recovery

Can we speak of agricultural recovery, and if so, in what sense?

There has undoubtedly been some slight change for the better. The Calcutta index number of wholesale prices of all commodities (July 1914=100) fell from 141 in 1929 to 87 in 1933 and thereafter gradually rose to 102 in 1937. There was a phenomenal recovery in exports in 1936-37. The following statement shows the quantum of exports and imports and the price level:

	Exports.		Imports.		Price level of Exports.	Price level of Imports.
1927-28	319·2	(100·0)	249·8	(100·0)	100·0	100·0
1928-29	338·6	(106·1)	262·8	(105·2)	97·5	96·4
1929-30	344·6	(108·0)	258·4	(103·4)	90·2	93·2
1930-31	308·4	(96·6)	206·0	(82·5)	71·5	80·0
1931-32	263·3	(82·5)	176·3	(70·6)	59·2	71·7
1932-33	239·2	(74·8)	203·4	(81·4)	55·3	65·2
1933-34	275·2	(86·2)	181·7	(72·7)	53·5	63·5
1934-35	280·4	(87·8)	210·0	(84·1)	54·1	63·0
1935-36	282·1	(88·4)	216·4	(86·6)	56·9	62·1
1936-37	[illegible]	([illegible]07·4)	199·4	(79·8)	57·2	62·8

It is seen that the quantum of exports after falling to its lowest point in 1932-33 steadily improved thereafter and that in 1936-37 it actually stood higher than in 1927-28. In 1937-38, excluding the Burmese figures, it was 3 per cent higher as compared with about 10 per cent in 1927-28. But the purchasing power of the cultivator does not depend on the quantities exported as on the prices received for exports. The value of exports fell from 319 crores in 1927-28 to 196 crores in 1936-37. Prices of exports are 40-50 per cent lower at present as compared with 1927-28, and those of imports relatively higher.

It would be possible to talk of agricultural recovery when prices of primary products return to the pre-crisis level. What hope is there of that?

If another Great War breaks out, prices will rise. But for how long? Prices after rising must fall again.

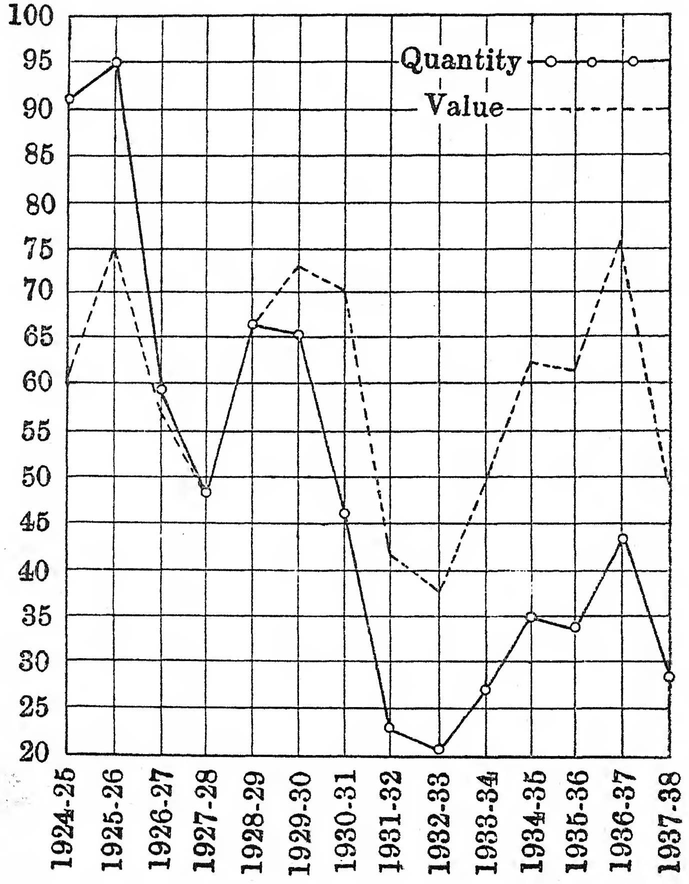
The future of Indian agriculture is gloomy. India cannot rely on foreign countries to increase their demand for her exports.

Conceivably India's own demand for her primary products can expand. We may consume all our wheat, cotton etc. But equilibrium between supply and internal demand can only be established at a lower price level. It is very unlikely that when there are no exports of wheat, growth of internal demand will raise the price of wheat to Rs. 4-8. Such a rise of price will tend to limit demand, which must cause price to fall.

The position in regard to cotton is not less difficult. Over 55 per cent of the cotton crop was exported in 1937-38 and about 67 per cent of the crop in 1936-37. The internal absorption of the quantity of cotton now exported pre-supposes roughly, a doubling of the output of the Indian mills. In 1937-38 the Indian mills consumed 2,866,000 bales of raw cotton (of 400 lbs.), the exports amounting to 2,731,000 bales. The potential demand for cotton cloth in India is enormous, but effective demand is limited by the small purchasing power of the consumer.

Finally, suppose we are able to develop the internal demand for our primary products so that the external demand becomes a matter of indifference. How shall we meet our sterling obligations

CHART NO. 29 QUANTITY (10,000 TONS) AND VALUE (CRORE RUPEES) OF EXPORTS OF RAW COTTON, 1924—25 TO 1937—38.



then? The Home Charges are not dwindling with exports. To meet the Home Charges and other necessary payments abroad we require an annual surplus of exports over imports amounting to well over Rs. 70 crores.

The present situation, in spite of such recovery as has taken place, is not cheering.

How far has the purchasing power of the people increased in consequence of recovery?

It should not be forgotten that the great majority of our population consists of agriculturists who are not much affected by the progress of manufacturing industries. For example, with desi kapas selling at less than 5 rupees, American kapas at about 6 rupees, and wheat at about Rs. 2-4 a maund, it is of small comfort to the rural masses in the Punjab to know that India's industrial output is expanding. The sugar industry is in a flourishing condition, but it absorbs a comparatively small proportion of the total sugarcane crop. The Inndian agriculturist will not become more prosperous unless agriculture becomes remunerative. At present prices, the cultivator is not earning wages for his labour, what to speak of a surplus above cost, out of which he is supposed to pay the land revenue.

From the point of view of the cultivator the talk of recovery must be heavily discounted. Agricultural recovery is more superficial than real.

CHAPTER XVI

ECONOMIC PLANNING

No subject has been more universally discussed since the crisis than economic planning. All over the world there is a violent reaction against pure and undiluted capitalism—or unplanned development of economic resources under conditions of free competition.

Capitalism is based on freedom of initiative and enterprise—individual responsibility is the very life of the system. But everywhere a system of artificial control and regulation is developing which is the very antithesis of freedom.

The rise of national economies has been referred to above. It is a product of the crisis. We are forced to levy a duty on wheat because, having lost our wheat markets abroad, we do not wish to lose the home-market as well. Rice is not protected at present, but the crop-planning conference at Simla discussed the proposal (passed by the sub-committee) to levy a duty of Rs. 1-4-0 per maund on rice and of annas 15 per maund on paddy.

The case for protecting manufacturing industries is not less strong. Progress is a good thing, but if progress threatens to rob millions of people of their bread, a little of retrogression is better than progress.

The theoretical advantages of territorial division of labour are unquestioned, but interests of national industry, safety and security have led all countries to restrict the freedom of importation.

Apart from the regulation of foreign trade, internal production in Western countries is in no sense free. The growth of Kartels has been noticed above. Trusts, kartels and other forms of combination, agreements and associations restrict freedom of enterprise. And, finally, every where the State is more actively interfering in business than ever before.

The transition from the present system of very much restricted freedom and ever-increasing State regulation and control to a planned economy may be difficult in practice, but it is a natural transition. Sombart, the great German historian of capitalism, says:

"The present is characterised by planless control and regulation as the past was by planless freedom and individual choice; the future will be characterised by planned development of the economic system."[8]

State policy, under a system of State control and regulation, does not directly determine the quantity or quality of the goods produced—these ultimately depend on the decision of individual producers. For example, heavy duties imposed on imported sugar have created an Indian sugar industry, but the State has no control over the number of factories set up or the amount of sugar produced in them. Through the sugar excise it is now sought to diminish the incentive to sugar-manufacture, so that there is no over-production of sugar, as there was over-production of cement sometime ago. Such intervention by the State may sometimes do more harm than good—in any case, it is essentially different from economic planning of which Sombart speaks.

Economic planning is winning adherents everywhere. Russian economy is a planned economy, economic planning, of a sort, is also a part of the Fascist creed. Both Italy and Germany decisively repudiate *laissez faire* as a solution of the difficult economic problems of the present time. But it is not merely Fascists and socialists who advocate economic planning. Sir Basil Blackett, who was neither, in the course of his Halley Stewart Lecture (1931) said: "I wish to put before you this evening the view that conscious, corporative planning is not only a desirable means of progress but an unavoidable necessity if we are to save the economic structure of modern civilization from disaster, and that the immediate task to which we should bend

[8] *Sombart, Zukunft des Kapitalismus*, p. 18.

all our energies is to prove to ourselves and to the world that planning is consistent with freedom and freedom with planning."[9]

Sir Basil Blackett expressed his thorough dissatisfaction with *laissez faire*. Science and invention by increasing enormously the size of the business unit have rendered invalid the assumptions on which the theory of *laissez faire* is founded. Mobility of labour and capital is not so great now as we are wont to assume. When huge businesses are created, with million of pounds sunk in them, and thousands of labourers employed in them, over-production causes havoc, because it is not possible to speedily convert specialised fixed capital to other uses, or to divert masses of skilled labour to other employments. When, at the same time, it is considered that there is a growth of industrial production, with modern appliances, all over the world, the danger of production out-stripping consumption becomes still more real. Under such conditions, planned production, or deliberate adjustment of supply to demand, is a safer course than unregulated, un-co-ordinated production which results from the independent choice of individual producers. One has no difficulty in agreeing with Sir Basil Blackett that "the whole body of *laissez faire* doctrine, the undiluted individualistic philosophy of Bentham and his school, has broken down, is dead, and ought to be buried."[10]

But what shall we put in the place vacated by *laissez faire*? Sir Basil Blackett suggests a planned economy consistent with freedom of enterprise.

India is not an industrial country, but economic planning, in the conditions created by the world crisis, is a necessity for us. In the course of a remarkable address delivered in Bombay on the eve of his departure from India Sir George Schuster " stressed the necessity for simultaneous attempts to regulate crop production for the whole of India on a definite plan." He referred to Java where sugar production had to be reduced from 3 millions to half a million ton, and said that a similar situation was arising in India in regard to wheat and rice. The general economic policy that

[9] The world's Economic Crisis Halley Stewart Lecture, 1931, p. 98.
[10] *Ibid*, p. 97.

India needs, according to Sir George Schuster, is not one aiming at complete economic self-sufficiency. " But ", he added " the course of world development does indicate the need for a policy for India which must be something different from past policy both in being more consciously planned and in its general orientation."

Planning in India

Planning has attracted considerable attention in India. The subject has been discussed at an annual session of the Indian Economic Conference. Crop-planning was discussed by a conference of officials at Simla in June 1934. Corp-planning in India has meant little more than suggestions to the Provinces that they might grow more of certain crops: Madras, Cambodia cotton; Bombay, sugar-cane, mangoes, plantains and pineapples; Bengal, sugarcane and fodder corps; U. P., high quality barley suitable for malting and linseed; Punjab, soya bean; Bihar and Orissa, sugarcane, linseed and fodder-crops; C. P. linseed, groundnuts and sesamum; Sind, cotton, rice and linseed; and Assam, linseed, and sugarcane. Jute restriction is being tried in Bengal. Then our planning also means that the Government of India have adopted a policy of encouraging Indian industrial development, the chief means employed for the purpose being the tariff. But on January 23, 1939 the Viceroy declard that no departure from the policy of discriminating protection in favour of 'full-fledged' protection was being contemplated. The interests of the consumer cannot be disregarded; the effect of a further enhancement of the tariff cannot be ignored since 'the law of diminishing return is already strongly in operation'; finally a higher tariff would encourage foreigners to establish factories in India 'and that cannot be regarded from the point of view of those who are more anxious for an increased degree of protection as a factor to be treated lightly.'

So far no 'planning' has been done in India, whether by the Government of India or the Provinces. For to frame policies is not to plan, as planning is understood.

At the end of 1938 the Indian National Congress appointed a Planning Commission which, with the co-operation of the

Congress and other Provinces, is to evolve a definite plan for the economic development of the country. The Planning Commission has started collecting statistical data.

Sir M. Visvesvaraya's Plan

Sir M. Visvesvaraya's *Nation-Building* gives the outline of a five-years' plan for the provinces. "Economic planning for a province," the author explains, "will be a scheme or course of action for raising the income, standard of living and material prosperity of its people by making the most suitable use of its resources and man-power." Under this scheme every province is to have (*a*) an Economic Council, (*b*) a Development Department, and (*c*) a Development Budget. The Development Department would have a Minister (the Punjab has already a Minister of Development), a secretary, a commissioner, and other necessary staff. These are to be men of 'more than average ability.' The development budget would obtain its funds partly by yearly contributions from current revenues and partly by public loans, the latter to be used mostly on industrial enterprises and productive public works. The general aim of development measures would be (*i*) to find work for the people, (*ii*) to increase production and income of the people, (*iii*) to advance nation-building activities. The success of the plan depends upon three conditions: (*a*) the discretion of the provincial Ministers is not interfered with by Governors, (*b*) the Plan should have the co-operation of all political parties, (*c*) Provincial governments should act in the spirit of a national Government. The Plan would include in its scope a wide extension of education and military training, but the development of industries would be its central feature. The author estimates that 16 per cent of our total production is derived from industries as compared with 77 per cent in England and 72 per cent in the United States. Heavy industries (manufacture of steel, machinery, engines, automobiles, mill machinery, railway locomotives, aeroplanes, ships and agricultural machinery) are in many cases required as key industries for supplying tools and raw materials to cottage industries. Cottage and heavy industries will

be developed side by side. Sir M. Visvesvaraya is of the opinion that, in the present stage, the encouragement of small and cottage industries is necessary to bring about rural prosperity.

Among aids to production Sir M. Visvesvaraya mentions (*i*) statistics, (*ii*) specialisation of capital and labour, (*iii*) banking and credit facilities, (iv) tariff protection, (v) a proper form of village self-government and (vi) co-operation of universities.

Present statistical data are inadequate. The need for the re-organisation of the statistical department was also emphasized by Messrs. Bowley and Robertson.

Sir M. Visvesvaraya estimates that a complete development programme for the entire country would require not less than Rs. 500 crores in the next ten years. Judiciously applied to industries this sum is expected to increase production by the same amount every year. The money might be obtained by loans. Government credit is high and the rate of interest low. To meet interest charges, fresh sources of revenue may be developed. In regard to the tariff, it is suggested that a permanent Tariff Board may be appointed: 'The import of all cheap goods which can be made locally should be stopped by high tariffs' (p. 27).

Village life is to be re-organised through village councils. The experience of Japan suggests that real self-government combined with the development of cottage and small-scale industries and improved agriculture, would help to double production in a very short time.

The universities can help by adapting their curriculum to the changing needs of the country. University studies should be rationalised.

Such, in brief outline, is Sir M. Visvesvaray's Plan for India.

The difficulties of planning in India must not be underestimated. They are, briefly, the following:

(1) Economic planning without political power has little chance of success.

(2) A central authority is needed for planning. If two or three provinces stand aloof, they can wreck the

whole plan. The Government of India is the proper planning and co-ordinating authority, and the Government of India is not a responsible Government.

(3) The industrialisation of India pre-supposes the use of the exchange ratio and the tariff in the interests of India. In view of the conflict of Indian with British economic interests, and of Viceregal pronouncements on the ratio and the tariff question, it is extremely improbable that India will be allowed a free hand in fixing exchange at a lower rate or in further raising the tariff wall.

(4) Certain industries, *e.g.*, ship-building, cannot be developed without discriminating against British interests, which is not permitted by the Constitution Act.

(5) It is doubtful if Congress and non-Congress provinces, or the various political parties, will be easily persuaded to work together.

(6) It is doubtful if India possesses a sufficient number of of men with the requisite technical ability to evolve a plan and to execute it.

The last point should not be taken as a reflection on Indians. But planning is not easy. Why should we not try to benefit by the experience of other countries which have, with more or less success, learnt to plan, whether on socialist or fascist lines? We may send men to Soviet Russia, the United States, and Germany and Italy to learn the technique of planning. Planning experts may also be imported, when the other conditions for planning are favourable.

Planning in essence is the control and direction of the whole economic life of a country for the realisation of pre-determined aims, *e.g.*, increase of production, abolition of unemployment, raising the standard of life of the people.

Planning is easy when the State owns all instruments of production and is the sole employer. Since, under these conditions,

private enterprise does not exist, there is no problem of reconciling private interests with those of the country as a whole.

In Italy and Germany, private enterprise has not been abolished formally, but it is subject to the severest regulation. In effect, while instruments of production are privately owned, private enterprise in Italy and Germany is not free—it is subject 'to a very advanced degree of government regimentation.' In Germany, by a law enacted in January 1934, the owner of a business may be removed if he 'abuses his authority......by maliciously exploiting the labour of any of his followers or wounding their sense of honour.' Businesses are organised on the principle of leadership. The proprietor is leader (Fuehrer) and has employees are his 'followers' (Gefolgschaft). By a law passed in 1933 the Minister of Economics in Germany has the power to prevent the extension of the existing industrial plants, to revise cartel agreements already made, and to force individual firms to enter into cartels or other industrial combinations. When industries are organised into combinations, the combinations may be controlled by the State, and thus production, prices and wages regulated. Businesses in Germany are allowed to distribute dividends at a fixed rate; profits earned above the fixed rate must be compulsorily lent to the State. In Soviet Russia foreign trade is a State monopoly, but both in Italy and Germany nothing can be exported or imported without the permission of the State—there is both monetary and quantitative restriction of foreign trade. The State fixes all prices in Russia. But price determination is not left to the free play of competitive forces in Italy or Germany either. In fact, there is very little of free competition left in these Fascist countries, whether in agriculture or in industry. It may be interesting to study the measures adopted to control agricultural prices in Germany—for it is imposible to bring prosperity to the rural masses in India without raising prices to a remunerative level, and maintaining them at that level. The *Reichsnaehrstand* is the organisation concerned with the regulation of agriculture. The aim of this organisation is to create a balanced economy and to adjust supply of food-stuffs to demand. It is compulsory for

every individual who is engaged in any pursuit or trade concerned with food-stuffs to become a member of the *Reichsnaehrstand.* The whole of Germany has been divided into 19 regions for the purposes of agricultural control, and in each of these regions special associations have been established for the production and sale of grains. Sales monopolies were created in the case of fats, eggs, butter, cheese and milk, so that no such commodity can be sold without the approval of the Government department concerned. The sales monopoly boards do no trading themselves, but they regulate supplies and determine prices.

It is stated that by these measures Government has largely succeeded in maintaining the level of prices.

There is a conflict of interests in the Punjab between rural and urban sections of the population. This has been strongly emphasized by the Punjab Government. A similar conflict of interests exists everywhere, even in Germany. But in a party proclamation issued in March 1930 Hitler said: "It is a mistake to believe that any single class can escape from the common fate of the German people, and it is a crime to incite the rural and the urban people against one another, since both are linked together in prosperity and destruction" (*ein Verbrechen, Landvolk und Staedter gegeneinander zu hetzen, die beide doch auf Gedeih und Verderb miteinander verbunden sind.*" z

The Corporate State in Italy

The corporate State in Italy definitely rejects class-war in any shape or form. An outline of the economic constitution of Italy is given below and the famous Charter of Labour is given as an appendix to this chapter. Both merit study and thoughtful consideration.

The Italian nation is regarded as an 'organism', with aims superior and more powerful than those of individuals or groups composing it. Italian Fascism speaks of the old *laissez faire* or liberal outlook with contempt. Laissez faire, whether in the political or the economic sphere, was derived from individualism

in its most extreme and unbridled form, which was the dominating and inspiring spirit of the period 1789 to 1914 (*Gerarchia*, Dec. 1938, p. 837). That spirit is dead. A new conception of the State has arisen, the State that is all-in-all, *lo Stato forte e sovrano*, the strong sovereign state, *lo stato impero, lo stato governo*, the State which rules and governs. The State, so far from standing aloof from economic life, interferes in every thing, with the object of making the nation and the country great. Nationalism is the driving force of fascism. Fascism rejects internationalism quite as decisively as it rejects the liberal State or class-war.

It is evident that if a nation is to function as an organism, or a unity in the moral, political and economic sense, the entire life of the nation must be controlled and directed by a Central authority. A vast organisation has been set up in Italy, in the form of the Corporate State, to regulate economic life.

The economic constitution of fascist Italy consists of four elements: syndicates, which may be called primary cells of the economic organism; federations, which are unions of syndicates; confederations, composed of federations as members; and Corporations, which are central unifying organiscations. Above all, supervising the working of the whole economic hierarchy, is the Council of Corporations, constituted in 1930, with Mussolini as President, and Government Minister of Corporation as Vice-President.

SYNDICATES

A syndicate is an association of employers or employees recognised by the State. It is not necessary for an association to seek legal recognition. Associations may exist as " *associazione de fatto* ", or *de facto* associations, in accordance with existing legislation. Officially recognised associations, or syndicates, however, enjoy certain privileges and are under the control of the State. Only legally recognised associations may name representatives of employers or employees to councils, organisations etc., for which this representation is provided by law. According to article 3 of the Charter of Labour, only a syndicate or trade association which

is legally recognised, and is under the control of the State, has the right of legally representing all the catagories of employers or labourers constituting it; of protecting their interests as against the State and other trade associations; of negotiating collective labour contracts binding on all those comprised in its categories; and of levying contributions and of exercising in respect of them the public functions assigned to it. The syndicates guarantee legal equality between employers and employees, maintain discipline in production, and endeavour to make it more efficient (Article 6 of the Charter of Labour). The Government recognises only one syndicate in a particular category in a given area. Multiplicity of syndicates would make it difficult for the State to control them.

Syndicates are recognised by the Government by means of a royal decree. Certain conditions must be satisfied before recognition is granted:

(1) The employers who wish to form a syndicate must employ at least one-tenth of the total number of workers engaged in the business for which the association is formed. Similarly the employees who seek recognition as a syndicate must represent at least one-tenth of the total number of workers of the category for which the association is formed in a given area. .Such employers or employees come together voluntarily for forming a syndicate.

Walter Heinrich tells us that the requirement of 10 per cent voluntary members was not a too easy condition, in view of the Italian worker's lack of interest in associations. He estimates that at present the syndicates comprise 30 per cent of Italian employers and employees.†

(2) The associations seeking legal recognition must include among their aims, besides protection of the economic and moral interests of their members, the education of their members, and promotion of their welfare.

(3) The leader or head of the association must give proof of his competence, good moral conduct, and patriotism (dependability from the national point of view).

† *Der Faschismus, Munich* 1932, p. 50.

The syndicates are not permitted to form connections with associations in other countries. Their activities, as we have seen, are of manifold character:social, educative, cultural, economic and political. The constitution of a syndicate must clearly state its aim, the method of appointing administrative officials and conditions of membership. One of these conditions is good political conduct from the national point of view. A member (whether employer or employee) must have attained the age of 18 years.

Non-Italians may become members after a stay in Italy of 10 years, but they are not permitted to become leaders or heads of syndicates.

The following classes are not permitted to form associations: officers, non-commissioned officers, and soldiers of the Royal Italian Army, Royal Navy, Royal Air-Force and of the other armed corps of the State, provinces and municipalities; magistrates, professors of secondary and higher institutions, officers and employees of the Ministers of the Interior, foreign affairs and colonies.

A syndicate, while it has a legal existence, is not a State organ. It is called "*ente autarchica*", an autonomous body. It may be considered 'autarchica' only in so far as associations are formed voluntarily. Otherwise the Syndicates are under stringent Government control.

The heads of syndicates are fascists, who work under the direction of the Fascist Party.

The recognition of syndicates depends on the State in the sense that the State has the power of with-holding recognition. That alone shows the complete dependence of syndicates on the State.

Further, the State, through the Minister of Corporations, may veto the resolutions of a syndicate. The Minister of Corporations may also dissolve the board of directors of a syndicate and concentrate all the powers in the President, or Secretary of a syndicate for a certain period (not exceeding one year). In serious cases he may appoint a commissioner to look after the administration during the emergency.

The Syndicates have to pay 10 per cent of their subscriptions

to the State, which is credited to a special fund under the control of the Minister of Corporations.

Federations and Confederations

Federations are associations of the second degree, syndicates being associations of primary or first degree. A federation may be municipal, provincial or national according to the syndicates of a given area which it federates. An association of federations is a confederation, which is called an association of the third degree. Federations and Confederations may be legally recognised. Their duty is to supervise the working of their member associations.

There are 6 Confederations of employers and 6 of employees. A thirteenth Confederation is that of Liberal Professions and Arts:

The associations of employers are the following:

(1) National Fascist Confederation of Agriculturists.

(2) National Fascist Confederation of Italian Industry.

(3) National Fascist Confederation of Traders.

(4) National Fascist Confederation of Internal Transport and Navigation.

(5) General Confederation of Fascist Bankers.

(6) National Fascist Confederation of Maritime and Aerial Transport.

The associations of workers are the following:

(1) National Confederation of Fascist Syndicates of Agriculture.

(2) National Confederation of Fascist Syndicates of Commerce.

(3) National Confederation of Fascist Syndicates of Internal Transport and Navigation.

(4) National Confederation of Fascist Syndicates of Industry.

(5) National Confederation of Fascist Syndicates of Bank Employees.

(6) National Confederation of Fascist Syndicates of Maritime and Aerial Transport Workers.

(7) National Confederation of Fascist Syndicates of Intellectuals.

Employees of State railways, posts and telegraphs and certain others form 9 National authorised associations (*Associazioni autorizzate*), and in addition there are two general associations of employees of the State and other public bodies. All these associations are under the control of the General Secretary of the Fascist Party.

Italy has also a Federation of hand-workers, which is included in the Confederation of Italian Industry.

The National Confederation of Agriculturists consists of Provincial Federations of Agriculturists. Each Provincial Federation consists of three syndicates: (*a*) syndicate of cultivating agriculturists, (*b*) syndicate of non-cultivating agriculturists, and (*c*) syndicate of lessors (proprietors of land given on rent—*proprietari di terre affitate*). Those paying rent in kind form part of the syndicate of labourers.

Corporation

A syndicate, as we have seen, is formed by the voluntary association of employers or employees; a corporation is created by the State. A syndicate is a juridical body, but a Corporation is a State organ; it is not a juridical body.

The number of Corporations is 22. The first eight are concerned with the utilisation of agricultural products: (1) food-grains, (2) fruits and vegetables, (3) wines, (4) oils, (5) sugar, (6) cattle and fish, (7) wood, (8) textiles. The next eight are concerned with industrial operations: (1) Metals and machines, (2) chemicals, (3) clothing, (4) paper and printing, (5) building and building materials, (6) water, gas and electrical energy, (7) mining and (8) glass and earthen-ware. The remaining 6 corporations deal with (1) insurance and credit, (2) liberal professions and arts, (3) sea and air transport, (4) land transport, (5) theatres, and (6) hotels.

A Corporation includes all businesses which are concerned with the production, manufacture and sale of a group of related products.

For example, the Corporation of sugar was formed by taking the National Syndicate of cane-growers from the Confederation of Agriculture, sugar-manufacturers from the Confederation of Industry, sugar-dealers from the Federation of trade, and the corresponding labour organisations from their respective federations or confederations.*

The Corporations, as we have said above, are unifying bodies, representing both labour and capital. They are empowered to frame rules for the regulation of conditions of work and also for the co-ordination of production through member associations.

The President of a Corporation is appointed by the Minister of Corporations. Each Corporation has a Committee consisting of representatives of the associations which form the corporation.

As we have seen, each Corporation consists of associations of employers and employees; on the committee the number of employers' representatives is equal to that of representatives of labour, including under labour both intellectual and hand-workers.

COUNCIL OF CORPORATIONS

This Council builds the top and pinnacle of the whole system. It has 150 members and is divided into 7 sections: (1) Liberal Professions and Arts, (2) Industry and Hand-work, (3) Agriculture, (4) Trade, (5) Sea and Air Transport, (6) Land Transport and Internal Navigation and (7) Banks.

Mussolini thus defined the position of the Council in the course of his inaugural address on April 22, 1930: "The National Council of Corporations is in the Italian economic system what the General Staff is in the Army: the thinking brain which plans and co-ordinates (*il cervello pensante che prepara e coordina*).† The object of the Council of Corporations is " to augment the power and welfare of the Italian people.[1]

Such is the economic structure of the fascist State in Italy.

* See report on Italy by Dr. Max Biehl in *Wirtschoftsdienst* for 25th May, 1934.

† *Discorsi* 1930, p. 41.

[1] *Ibid*, p. 51.

Italy is known as the Corporate State, as the economic life of Italy is organised through Corporations.

Italian Syndicalism

Other writers identify the Italian State, not with Corporations, but with Syndicates ,the unit of the economic administration of Ialy. Panunzio says: " It is not sufficient to say: The Fascist State is a Sovereign State. It is necessary to add: " A sovereign State over society organised in syndicates."[2] Panunzio speak of identification (*immedesimazione*) of the State with the syndicates, of a synthesis of the two. The Italian State is thus composed not of individuals or persons in a physical sense, but of syndicates, which are ' judicial persons.' But while the State is composed of syndicates, it is at the same time above the syndicates. Panunzio makes it clear that the syndicates are not autonomous entities (*enti autonomi*) but institutions of the State which controls them and uses them for its own ends."[3]

It is clear that Italian Syndicalism is essentially different from the French variety. " I am a syndicalist, fascist syndicalist," says Mussolini.[4] French syndicalism preaches class-war. Italian syndicalism, on the other hand " unites all the factors of production and puts them on the same plane, which is the nation."[5] This means that labour and capital must work together in the interests of the nation.

Fascism respects and upholds the right of private property. Mussolini has made this quite clear. In explaining the difference between fascist and red syndicalism he said in 1925:

" There is a fundamental difference between our and red syndicalism, and it consists in this that it does not aim at abolishing the right of property. When an employer finds himself confronting a red syndicate he has before him a syndicate that fights incidentally

[6] *Panunzio, Il Sentimento dello Stato*, p. 151.

[5] *Ibid*, p. 134.

[4] *Discorsi*, 1925, p. 181.

[3] *Ibid*, p. 181.

for increase in wages, while its final, distant aim is a revoluntionary change, namely the abolition of the right of property."†

Italian syndicalism repudiates class-war. The identification of the Syndicates (or Corporations) with the State is meant to show the unity of workers and employers on the one hand, and their subordination to the interests of the nation on the other. The first article of the Charter of Labour declares the Italian nation to be an organism and a unity in the moral, political and economic sense. It is emphasized that the aims of the State are superior to those of separate individuals, or groups composing it. This view of the State having been accepted, it follows that labour is a 'social duty' and that there must be no strikes or lock-outs.

The Fascist economic hierarchy represents an attempt to organise economic life, or to introduce order and discipline where, under a system of free competition, there is conflict and confusion of individual interests.

Secondly, there is close co-operation between government and the business world. Fascism maintains individual responsibility, but under rigid Government control. As an economic system it may be described as a compromise between individualism and socialism. It is neither of the two completely, but it is something of both in parts.

The Anti-Strike Law

Labourers who go on strike in groups of three or more are punishable in fascist Italy by a fine from 100 to 1,000 lire. Employers who close their factories with the object of compelling workers to modify existing labour contracts are punishable by fines from 10,000 to 100,000 lire.

The organisers of strikes or lock-outs are punishable by imprisonment for not less than one and not exceeding two years, in addition to the fines mentioned above.

State employees and others employed in public utility-services are punishable for striking work by solitary confinement from one

† *Ibid*, p. 281.

to six months, and the organisers of such strikes by solitary confinement from six months to two years.

The administrators of public services and businesses of public utility are punishable by solitary confinement from six months to a year and by a fine from 5,000 to 10,000 lire for suspending work without justification.

Failure to carry out the decisions of a labour magistrate also entails punishment by a fine and imprisonment, both for employers and employees.

Labour Courts

The Labour Court is the organ through which the State settles labour disputes, whether concerning the observance of existing rules and agreements or the determination of new conditions of work (Art. 5 of the Charter of Labour).

No labour dispute is referred to the Labour Court unless conciliation through syndicates, federations, confederations and corporations has failed. Art 10 of the Charter of Labour gives trade associations the right of offering their mediation in controversies concerning the interpretation of collective labour contracts. Article 68 of the Anti-Strike Law confers on syndicates and associations of a higher order the power to act in labour disputes. The public ministry has also the right to intervene when the interests of the public demand it.

The Labour Court is assisted by 2 unofficial assessors, possessing expert knowledge of production and labour.

In cases in which new conditions have to be fixed for labour, the Labour Court judges in accordance with equity, with the object of harmonising the interests of the employers with those of employees, and protecting the higher interests of production. When a Labour Court fixes new conditions for labour, the period of time during which the new conditions shall be in force must be specified.

The Labour Court gives its decision after hearing the verbal opinion of the public ministry. The Government, therefore, may influence the judgment of the Labour Court.

The idea that Fascism has no message for the world is mistaken. Paul Einzig in his *Economic Foundations of Fascism* says: " While Soviet Russia is anxious to spread Communism all over the world and has spared no effort to make it known abroad, Fascist Italy has directed her propaganda inward, and has made no serious effort to gain converts abroad. As Signor Mussolini stated recently, " Fascism is not an article for export."[1]

This is incorrect. Mussolini denies that he ever said that fascism was not an article for export. Speaking in 1930 he said: " The statement that fascism is not an article for export is not mine. I affirm today that fascism in regard to idea, doctrine, realisation is universal. Italian in its own special institutions, it is universal in spirit; it cannot be otherwise. The spirit is universal in its own nature. One may therefore look forward to a Fascist Europe, a Europe whose institutions derive their inspiration from the doctrines and practice of fascism."[2]

Thus spoke Mussolini in October 1930. In less than three years Germany turned fascist. Fascist influence on the Continent of Europe is steadily growing.

Mussolini claims that fascism is " the only new thing " which the first 30 years of the present century have brought in the political and social domain. A more important claim is that fascism has solved the threefold problem of the relation of the State to the individual, of the relation of the State to groups of individuals living under the protection of the State, and of the relation of groups which are not organised to those which are.[4]

It is beyond question that fascism has changed Italy. Speaking in February 1922 as a member of the Italian Parliament Mussolini declared that Fascism meant " a profound economic transformation of Italy "[5] Seven years later, in 1929, as head of the fascist Government he spoke of " the immense panorama of material and moral transformations which we have accomplished "[6]

[1] p. 3.

[2] *Discorsi* 1930, pp. 211-12.
[4] *Discorsi* 1930, p. 212.
[5] *Discorsi dal Banco di Deputato*, p. 154.
[6] *Discorsi*, 1929, p. 283.

Fascism has given to Italy a strong, centralised Government, which exacts obedience from the Italian people, and which commands the respect of the world. It has ended the war between labour and capital which, before the rise of Mussolini to power, theatened to plunge Italy into chaos. The past ten years have also seen a vast development of Italy's industrial and, specially, agricultural resources. And, finally, fascism has taught the meaning of nationalism to Italians, and inspired them with a new faith in new ideals.

Socialist Planning

The whole world is indebted to Russia for the idea of planning. The success of the First Five Year Plan in Russia attracted world attention. The plan did not succeed to the extent claimed, but it did achieve a substantial measure of success.

Planning has made Russia one of the leading industrial countries. It is difficult to say how far it has raised the standard of living of the Russian worker as compared with the standard of living in Italy, Germany or England. The standard of living of the Russian worker is not high; it does not seen much higher than that of the average Indian worker. But it is impossible to deny that planning in Russia has succeeded beyond the expectations of the world. Whether the gains of Russia under her socialist economy are of a permanent and progressive nature, remains to be seen.

Chief Features of Socialist Planning

The Russian experiment is interesting in so far as it brings out the contrast between a planned and an unplanned economy. The chief points of contrast are noted below:

1. The State owns and controls the means of production, including land. A capitalist economy is based on private ownership of the means of production.

2. All production in a socialist economy is controlled and directed by the State. In a capitalist economy the final decision

as to the quantity and quality of goods to be produced rests with individual producers. There is a centralisation of control under socialism in contrast with complete decentralisation under capitalism. The formation of trusts, cartels and other forms of combinations is an attempt to remedy the defects of unregulated, decentralised production in the sphere of industry.

3. Competition is the chief regulator in the capitalist world, and the hope of profit its chief driving force. In a socialist economy the place of competition is taken by deliberate selection.

The difficulties of socialist planning must not be overlooked. A German critic says:[7]

"Any one who possesses practical knowledge of business conditions knows that each day brings new problems, and that it would be necessary for the Economic General Staff [under a socialist economy] to possess the divine power of omniscience in order to know and consider beforehand the possibilities that may arise in the course of the struggle for international markets. The apparatus that would be required to adjust the whole economy to the necessities of daily life, and always to do punctually just what has to be done, is so inconceivable, and is so calculated to separate the whole economic system from contact with reality (which is ensured only by the splitting up of the economic system into millions of individual businesses) that one may predict that German economic re-construction on these lines would end in disaster".

We may add that those who plan production and others who direct the execution of the plans in a socialist economy must be men of the highest intelligence and character. Corruption and inefficiency in the socialist bureaucracy, and impatience and lack of faith in the general public, would be fatal to the success of socialist planning.

The value of the Russian experiment consists just in this that it has demonstrated the practicability of planning. The State Planning Commission at Moscow would not claim to possess the gift of Divine Omniscience, but they have succeeded in U. S. S. R.

[7] *Dic Zukunft des Kapitalismus* by M. Georg Solmssen, (Georg Stilke, Berlin, 1933). p. 28.

in evolving a system which has enabled the Russian people to emerge from the world crisis unhurt, a crisis which has shaken the whole of the capitalist world to its foundations.

It is difficult to see why contact with reality can be maintained only through millions of independent producers, each working on his own account. It is more obvious that a system of unregulated and undirected production may more easily get out of touch with reality than a system in which supply is deliberately adjusted to demand. No one believes today that the individual in seeking his own interests necessarily and always promotes the good of the society. There is no universal harmony of interests any where: in the actual economic world in which we live it would be more correct to speak of individual conffiicts of interests than harmony. This conflict ceases when competition is abolished.

Over-production and under-consumption

We have seen before that the term over-production must be understood with reference to effective demand. There is no over-production if we consider the unsatisfied demand of the masses in every country for even the most essential commodities.

The crisis thus appears to be a crisis of purchasing power. While the supply of goods has increased, the purchasing power of the masses has not increased in the same proportion.

Socialist writers attach much importance to 'under-consumption' as a cause of the crisis. This under-consumption is a direct of the capitalist system in which the greater portion of the profits of enterprise goes to enrich a very small section of the community. The purchasing power of the masses is small because the masses earn so little. If wealth were more equally distributed in India the total purchasing power of the people would be undoubtedly greater. "There seems to be no reason", says a writer, "why the concentration of income in the hands of the producing class should not result in as much consumption as if that income flowed to the poorer classes: possibly more luxuries would be bought than necessaries, but, as we have seen, the demand for the latter is not

very elastic and consequently cannot fall very much."[8] If this reasoning is correct, growing inequality in the distribution of wealth does not affect the general demand for goods—there is only a change in the classes of goods demanded (more luxuries instead of necessaries), and the demand for necessaries, owing to its inelasticity, does not fall very much.

Let us develop this argument further, for it is interesting. Suppose wealth tends to concentrate into the hands of a class which tends to grow smaller and smaller, until, finally, not more than a dozen individuals come to own the great part of the wealth of a country. Will that have any effect in reducing the demand for goods in general? Conceivably the demand for necessaries may be as great as before, and the demand for luxuries on the part of these dozen Croesuses may expand indefinitely. But there are physical limits to the expansion of demand on the part of the most extravagant Croesus. One is reminded of a saying of Mussolini that "it is possible to accumulate wealth *all 'infinito*, but the possibility of enjoying it is limited."[9] If that is so, doubling and quadrupling of the wealth of our Croesuses would result in a smaller increase of demand than a rise in the income of the masses by a few rupees per head.

It is perfectly ridiculous to suggest that under-consumption has nothing to do with the crisis. The concentration of wealth in the hands of a small capitalist class limits the purchasing power of the masses and keeps their standard of living at a low level. Hence under-consumption at a time when the world's productive capacity has increased enormously.

How can the purchasing power of the masses be increased? Is it a question of credit policy or a better distribution of wealth?

When inventions increase productive power faster than consumption, equilibrium may be restored by stimulating consumption. A better distribution of wealth is the means of raising the standard of living of the masses. When their purchasing power increases they will buy more and consume more. A rise in the standard of

[8] *Elements of Economics* by S. E. Thomas, 6th Ed., p. 577.

[9] *Discorsi*, 1926, p. 91.

living also reacts on productive efficiency—it leads to greater production.

Growth of production should be a matter for universal rejoicing, but in a capitalist economy it becomes a curse. The Dutch in the 17th century used to destroy crops of pepper in order to keep up its price, and their methods are being widely copied at the present time. There is a Persian saying:

Ai raushni-e tab'a to bar man bala shudi!

"My intelligence has become a source of my misfortune!" The inventive genius of man, which has made it possible to exploit Nature more effectively in the interests of production, has become the source of the world's misfortune!

Surely there is something wrong with the world's economy when, with increased production of wealth, the world is growing poorer! To grow less wheat and rice, tea, coffee and sugarcane when the demand for them is almost indefinitely extensible, is to compel the masses to continue to live in poverty and want.

Other aspects of economic planning

Economic planning is not patch-work. It must be comprehensive, embracing all fields of economic activity, the whole of production and the whole of distribution.

Economic planning cannot be sectional because economic life is not sectional. It is not possible to plan for industries, leaving agriculture alone, or to plan for agriculture neglecting industries. The various aspects of our economic life are so closely intertwined that a national plan of reconstruction cannot neglect any without deforming the whole structure.

Economic enterprise has many forms, for example, hand-work and machine-work, small and large scale production, individual and State enterprise. Should economic planning aim at preserving all this variety of form?

No less an authority than Werner Sombart, while accepting the idea of economic planning, has argued in favour of retaining

the complexity of economic forms, structures and systems which we see around us. A planned economy, according to him, should not be confounded with Monism of economic forms, or identified with public economy, as distinguished from private economy, or State Capitalism, or Collectivism. *Khaddar* may therefore have a place in a planned economy side by side with the products of textile mills, and the *charkha* side by side with the spinning machine. Some hand-work has survived even in advanced industrial countries; if capitalism itself has not been able to destroy the variety of economic forms, asks Sombart, why should a planned economy undertake to accomplish such a hopeless task? (*Die Zukunft des kapialismus*, p. 27). As regards private and public economy, it is not a question of "*either-or*", but indeed of "*also*". "Private property *and* communal property, private economy *and* social economy will exist side by side, nay, they *must* do so". ('p. 29'). This is Sombart's idea of a planned economy, an idea which is acceptable to fascism, so far as economic planning has any place in the fascist scheme of thought at all.

Socialist planned economy is of a unitary character. In the domain of industry attention is concentrated on machine-making and development of the sources of power. In agriculture collective farming with power-driven appliances is the distinguishing feature. Production is on a large scale, or economic planning in the socialist State is on the basis of the machine, whether in agriculture or industries.

APPENDIX TO CHAPTER XV

THE CHARTER OF LABOUR

Granted on the evening of April 21, 1927

THE CORPORATE STATE AND ITS ORGANISATION

1. The Italian Nation is an Organism having aims, life and instruments of action more powerful and permanent than those of separate individuals or groups which compose it. It is a unity in the moral, political and economic sense which is realised integrally in the Fascist State.

2. Labour in all its organised and executive forms, whether intellectual, technical or manual, is a social duty. For this and this reason alone it is protected by the State.

The whole system of production is a unity from the national point of view; its objects are one, which may be briefly expressed as the well-being of individuals and the development of national power.

3. Organisation, whether by Syndicates or Trades, is free. But only a Syndicate which is legally recognised and is under the control of the State has the right of legally representing all the categories of employers or labourers constituting it; of protecting their interests as against the State and other Trade associations; of negotiating collective labour contracts binding on all those comprised in its categories; and of levying contributions from them and of exercising in respect of them public functions assigned to it.

4. The solidarity of various factors of production finds its concrete expression in the collective labour contract, through the reconciliation of conflicting interests of employers and employees, and their subordination to the higher interests of production.

5. The Labour Court is the organ through which the State regulates labour disputes, whether concerning the observance of existing rules and agreements or the determination of new conditions of work.

6. Legally recognised trade associations guarantee legal equality between employers and employees, maintain discipline in production and in work and seek to make them more efficient.

The Corporations are unified organisations of production and represent all its interests.

In virtue of this complete representation, and since the interests of production are national interests, the Corporations are recognised as organs of the State.

The Corporations representing the unified interests of production can frame compulsory rules for the regulation of conditions of work and also for the co-ordination of production whenever they are empowered to do so by the associations of which they are a union.

7. The Corporate State considers private initiative in the field of production as the most efficacious and useful instrument in the interests of the nation.

The private organisation of production being a function of national interest, the organisation of a business is responsible to the State for the direction of production. From the collaboration of productive forces is derived the reciprocity of rights and duties among them. The employee, whether a technician, clerk or workman is an active collaborator in the economic undertaking, whose direction is in the hands of the employer and who is responsible for it.

8. Trade associations of employers are under obligation to take every step to increase production, to make it more efficient and to reduce costs of production. Associations representing those who practise the liberal professions or the arts, and associations of State employees, help in the protection of the interests of art, of science and of letters, in increasing the efficiency of production and in the realisation of the moral aims of the corporate organisation.

9. The State intervenes in the sphere of economic production only when private initiative is lacking or found insufficient or when the political interests of the State are involved. This intervention may assume the form of control, encouragement, or direct management.

10. In collective disputes of labour, legal action cannot be instituted before the corporate organ has first attempted conciliation.

In individual controversies concerning the interpretation and application of collective labour contracts, trade associations have the power of offering their mediation for conciliation.

Ordinary labour courts, with the addition of assessors nominated by the trade associations concerned, are competent to settle such disputes.

The Collective Labour Contract and Guarantees of Labour

11. Trade associations are under obligation to regulate, through collective contracts, the relations between employers and employees whom they represent.

The collective labour contract is made between associations of the primary grade under the guidance and control of central organisations, except when in cases provided by law and statutes, associations of a higher grade may take the place of the association of the primary grade.

Each collective labour contract, under penalty of nullity, should contain precise rules relating to discipline, period of trial, amount and method of wage payments and hours of work.

12. The action of the Syndicate, the conciliatory measures of corporate organisations and the decisions of Labour Courts guarantee a wage conforming to the normal requirements of life, to the possibilities of production and to the productivity of labour.

The fixing of wages is withdrawn from any general rule and is entrusted to agreements between parties in the collective contracts.

13. Losses occasioned by crises of production and monetary changes must be equally shared by all factors of production.

Statistics issued by Government Departments, by the Central Institute of Statistics and by legally recognised Trade Associations, relating to the conditions of production and labour, the situation of the money-market and the standard of life of workers, co-ordinated and elaborated by the Minister of Corporations, will furnish the direction for harmonising the interests of various categories and

classes as among themselves and with the higher interests of production.

14. The wage must be made to conform, in the most suitable manner, to the requirements of the labourers and the undertaking.

When wages are paid according to peace-work, and payment is made at intervals exceeding a fortnight, fortnightly and weekly accounts must be prepared.

Night work, not included in regular shifts, must be paid for at a rate higher than that for work during the day.

When wages are paid according to piece-work, the rate of wages should be determined in such a way as to allow a faithful worker, of normal working capacity, to earn a minimum in excess of the basic wage.

15. The employee is entitled to a weekly holiday coinciding with Sunday.

Collective contracts will apply this principle keeping in view existing laws and the technical requirements of the business, and within the limits of these requirements they will likewise respect civil and religious festivities according to local traditions. The employee must scrupuloustly and earnestly observe the hours of work.

16. After one year's uninterrupted service in a business which works throughtout the year the worker is entitled to a period of rest with pay.

17. In a business which works throughout the year, a worker discharged without his fault is entitled to compensation proportionate to his years of service. Such compensation must be paid also in the event of the worker's death.

18. The transfer of ownership of a business working throughout the year does not terminate the labour contract, and its employees retain their rights as against the new proprietors.

Similarly, the illness of a worker, when it does not exceed a fixed period, does not terminate the labour contract. The call to arms, or service in the M. V. S. N. (*Milizia Volontaria per la Sicurezza Nozionale*=Fascist Voluntary Militia for National Defence) is not a cause for dismissal.

19. Infringements of discipline, and acts committed by employees disturbing the normal functioning of a business, are punished, according to the gravity of the offence, with fine, or suspension of work, and in the severest cases, with immediate dismissal without compensation.

The cases in which the employer can inflict a fine, or punish with suspension or immediate dismissal without compensation shall be specified.

20. The new employee is subject to a period of trial during which there is a reciprocal right to terminate the contract with the payment of wages to the worker only for the period during which he actually worked.

21. The benefits and the discipline of the collective labour contract are extended also to home-workers. Special rules will be framed by the State to insure that home-work is done under clean and hygienic conditions.

Employment Bureaus

22. The State ascertains and controls the phenomena of employment and unemployment, which are good indices of the conditions of production and work.

23. Employment bureaus are formed on the basis of equality [*i.e.*, equal representation of employees and employers] under the control of corporate organisations of the State. Employers are under obligation to engage workers through these bureaus. They may make a selection out of the registered names, but preference is to be given to those belonging to the Fascist party and Facist Syndicates, according to priority of registration.

24. Trade associations of workers are under obligation to practise selection among workers with the object of constantly improving their technical capacity and moral value.

25. The Corporate organisations see to it that the laws relating to the prevention of accidents and sanitation are observed by individuals who are placed under united associations.

Insurance, Assistance, Education and Instruction

26. Insurance is an important expression of the principle of collaboration. The employer and the employees must share its burdens proportionately. The State through the Corporate organisations and trade associations will endeavour to co-ordinate and unify, as far as possible, the system and institutions of insurance.

27. The Fascist State proposes:

(i) To improve accident insurance.

(ii) To improve and extend maternity insurance.

(iii) To introduce insurance against professional diseases and against tuberculosis as a beginning towards general insurance against all diseases.

(iv) To improve insurance against involuntary unemployment.

(v) To devise special forms of endowment insurance for young workers.

28. It is the duty of associations of workers to protect those they represent in administrative and legal matters relating to accident insurance and all forms of social insurance.

In collective labour contracts provision will be made, in cases in which this is technically possible, for the constitution of mutual funds, with contributions from employers and employees, to be administered by the representatives of both under the supervision of corporate organisations.

29. It is the right and duty of Trade associations to provide relief for those whom they represent, that is, for both members and non-members. Trade associations must directly exercise their functions of providing relief; these cannot be delegated to other organisations or institutions, except for objects of a general nature, which exceed the limits of individual categories [*i.e.*, the trade concerned].

30. Education and training, particularly professional training, of those they represent whether members or non-members, is one of the principal duties of Trade associations. They must assist the work of national institutions concerned with *Dopolavoro* [Recreation after work], and other measures of education.

PART IV

MONEY BANKING AGRICULTURAL CREDIT

CHAPTER XVII

CURRENCY AND EXCHANGE

1. Indian Currency, 1835—1897

The rupee was established as a standard coin throughout the territories belonging to the East India Company in 1835. Before that date a great variety of gold and silver coins circulated in different parts of the country, silver rupees being used chiefly as standard money, while the value of gold coins depended upon the market price of gold. The circulation of several denominations of coins in the country caused great inconvenience to the trading community and to the Government, and we find the Court of Directors, in their Despatch dated 25th April, 1806, approving the recommendations of their officers in India " for the adoption of one general system for the formation of the coins for the currency of the whole of our possessions on the continent of Asia," for they were " fully satisfied the evils complained of can only be removed by the introduction of a gold and silver coinage of one weight and fineness, such coin to become the universal measure of value for British India."*

No less than 27 varieties of rupees were current in Bengal, and in the Punjab, before the time of Ranjit Singh, currency conditions were not less chaotic. Ranjit Singh closed all the mints except those at Lahore and Amritsar, where the Nanakshahi rupee was first coined. The Nanakshahis were " the national currency " of the Punjab. They were divided into three series, called the *porane*, coined from 1796 to 1814; the *chulme*, coined from 1814 to 1824; and the *chilte*, coined after 1824. The *porane* circulated at a discount with the *chulme* and the *chulme* at a discount with the *chilte*. All three were at a discount with the Company's rupee, in spite of their greater intrinsic value. The artificial value given to the Company's rupee over the *porane* and the *chulme* was due to the fact that neither of those coins was received at the British treasuries.†

About the same time 15 coins, in addition to the Company's rupee,

* *East Indian Currency*, No. 127, para. 4.

† *Papers Relating to (East India) Coinage*, 1860 (No. 254), p. 24.

were current in Rajputana, and they were "as much a marketable article as opium, cotton, or any other staple of commerce ".*

The Act No. XVII of 1835 made the silver rupee of 180 troy grains, eleven-twelfths fine, the standard throughout British India. The weight and the fineness of the rupee have remained unaltered since 1835.

THE POSITION OF GOLD IN THE CURRENCY

By section 9 of the Act of 1835 it was enacted that "no gold coin shall henceforward be a legal tender for payment in any of the territories of the East India Company." The Court of Directors, however, in the Despatch of 1806 had stated that "it is not by any means our wish to introduce a silver currency to the exclusion of the gold, where the latter is the general measure of value, any more than to force a gold coin where silver is the general measure of value."†

In para 16 of the Despatch they clearly defined their attitude towards the use of gold as currency:—

> "Although we are fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account, yet we are by no means desirous of checking the circulation of gold but of establishing a gold coin on a principle fitted for general use. This coin, in our opinion, should be called a gold rupee and be made of the same standard as the silver rupee, *viz.*, 180 troy grains, gross weight, and 165 troy grains, fine gold, also divided into halves and quarters, so that the coins of both gold and silver should be of the same denomination, weight and fineness."

In view of this pronouncement it is difficult to understand why the gold pieces coined under the Act of 1835 were deprived of the legal tender quality. By a proclamation issued in 1841 officers in charge of public treasuries were authorised to receive the gold coins struck under the provisions of the Act of 1835 at their denominated value, until they should have passed a certain limit of lightness, when they were to be taken as bullion only, by weight. It is also not clear what was the precise object in requiring public treasuries

* *Ibid.*, p. 29.

† *Para.* 22.

to receive gold coins which were no longer legal tender. It was certain that so long as the market price of gold exceeded the denominated price of the coin in silver, no gold would be brought to the Government, but if the market price of gold fell below the silver denomination of the coin, gold would accumulate in Government treasuries and this gold could not be used by Government in making payments to the public as it was not legal tender. Such was actually the result of the proclamation of 1841. In a letter to the Court of Directors, dated 2nd July 1852, the Government of India pointed out that there was 30 lakhs of rupees worth of gold in Government treasuries which was of no use to them.

The Government of India proposed that the proclamation of 1841 should be withdrawn. The Court of Directors agreed with the Government that it was important at once to check the receipt of gold into the Indian treasuries, but they pointed out that the proclamation of 1841 was not intended to bear the interpretation which the Government had given to it. By a notification issued in December, 1852, it was declared that beginning with January, 1853, "no gold coin will be received on account of payments due, or in any way to be made, to the Government in any public treasury within the territories of the East India Company." Gold, however, continued to be received into the mint for coinage under the Act of 1835.

While the action taken by the Government tended to discourage the use of gold as currency, the fall in its price, consequent upon the discoveries of gold in Australia and California, considerably increased the demand for gold. Memorials were submitted to Government by various Chambers of Commerce praying for the introduction of a gold currency. The more important proposals made with a view to encourage the use of gold as currency were: (1) the introduction of the sovereign or some other gold coin which should circulate at its market price from day to day measured in silver: (2) the introduction of the English sovereign as legal tender for ten rupees, but limited in amount to 20 rupees: (3) the change of the monetary standard from silver to gold, silver tokens to be used as subordinate coins. These proposals were examined by

Suppose the market price of [illegible] >10, it is profitable for the public to make payment in rupees. It is reverse when the sovereign falls below Rs 10. Payment in sovereigns in payment in rupees need turning the sovereign in rupees

Mr. James Wilson in a minute entitled "Proposals to introduce a Gold Currency in India," dated 25th December, 1859. He thought, and rightly, that a gold coin, whose value as measured in silver was fluctuating from day to day, could not be used as currency. To the proposal to permit the circulation of the sovereign as legal tender to a limited extent of 20 rupees his objection was that the sovereign would not circulate so long as its value was above the ratio at which it was made legal tender, and that every effort would be made to force it into circulation if its value fell below that ratio. The result would be that those who received the sovereigns in payment of small sums (railway companies and small dealers, for example), would not be able to use them in making large payments without risk of loss. This objection did not apply to a change in the standard from silver to gold, and Mr. Wilson admitted that if Government "had to begin *de novo*, convenience would point to a gold standard with silver tokens as the best." But he thought that in a country where all obligations had been contracted to be paid in silver, to change the standard from silver to gold, because gold had depreciated, would be to defraud the creditor for the advantage of the debtor and to break public faith. His view was that a well-regulated paper currency was more desirable than gold in circulation, and he submitted his proposals for a Government paper currency in a separate minute.

To James Wilson's plan for a paper currency it was objected that the people of India would be slow to appreciate the advantages of paper money as from time immemorial they were accustomed to the use of money of instrisic value.

The case for the introduction of gold into circulation in India was ably argued by Sir Charles Trevelyan in a minute dated 20th June, 1864. Information collected by Sir Charles Trevelyan from all parts of India showed that there was a general desire for the introduction of gold coins in India; that the people of India were well-acquainted with the sovereign; and that there was every reason to think that the introduction of the sovereign would be well received and that it would circulate freely at 10 rupees. The Secretary of State, however, did not think it advisable to make the

sovereign legal tender, but as an experimental measure he suggested that the sovereign and the half-sovereign should be received into and paid out of public treasuries in India for ten and five rupees respectively, and effect was given to this proposal by a Government notification in November, 1864. But the rate of ten rupees to the sovereign was below the market value of the sovereign, and therefore it failed to attract sovereigns to Government treasuries. The rate was raised to Rs. 10-4 for the sovereign and Rs. 5-2 for the half-sovereign in October, 1868. Shortly afterwards the gold price of silver began to fall, which entirely changed the Indian currency situation, and the Government of India adopted the following Resolution on the subject of a gold currency on 7th May, 1874:—

"The expediency of introducing a gold currency having been considered, the Governor-General in Council is not at present prepared to take any step for the recognition of gold as a legal standard of value in India."

The Fall in the Gold Value of Silver

The fall in the gold value of silver commenced in 1873, and by 1893 it amounted to 40 per cent.

Expert opinion was divided as to the causes of the fall. On the one hand it could not be denied that the production of silver had increased. The demand for silver had, at the same time, decreased owing to (*a*) the cessation of free coinage of silver in Germany, the Latin Union and Holland, and (*b*) diminution in the Indian demand for silver caused chiefly by increase in the sale of Council bills. It would, therefore, appear that the change in the relative values of the precious metals was due to causes affecting silver. On the other hand, there is a good deal of evidence to show that during the whole period, 1873—1893, gold was appreciating owing to causes affecting gold itself—decreased production and increased demand for industrial and monetary purposes. If the purchasing power of gold and silver in terms of commodities is considered, it is found that the fall in the gold value of silver far exceeded the fall in the value of silver as measured by purchas-

ing power over commodities either in China or in India, while the purchasing power of gold over commodities in England increased very considerably. The movements of gold and silver prices unmistakably show that the change in the relative values of the precious metals was primarily due to the appreciation of gold, not depreciation of silver.

Whatever be the causes of the fall in the gold value of silver, its effect on Indian finance was most serious. The Home Charges amounted then to about £15,000,000 annually. The Home Charges represent a sterling obligation of the Government of India, while the revenues of the Government are collected in silver. Every fall in the gold value of the rupee thus meant a real addition to the burden of the Home Charges.

In a note dated 13th July, 1876, R. B. Chapman, Secretary, Financial Department of the Government of India, pointed out that from 15½ times gold had risen to be worth about 20 times its weight in silver, and that the fall in exchange to 1*s.* 7*d.* had made it necessary for the Government to find crores of rupees annually in excess of what they had at their disposal. "The task," he wrote, "is formidable enough to cause dismay. It will be requisite to give up all administrative luxuries and even some necessaries......Resort must, moreover, be had even to new taxation. But a loyal and combined effort must be made. I see no way of escape from the painful exigency."

Any considerable increase in taxation, however, was not practicable for political reasons and the situation was one of great difficulty.

Apart from increasing the burden of the Home Charges, the fall in exchange tended to check the investment of foreign capital in India and lowered the gold value of the salaries, paid in rupees, of the European employees of the Government. It also made foreign trade a gamble in exchange.

In view of the ultimate establishment in India of the gold exchange system it is interesting to learn that as early as 1876 it was proposed to secure stability of exchange by closing the mints to the coinage of silver and giving the rupee an artificial gold value. The main features of this plan were described in a letter by Major-General Richard Strachey to the

Editor of the *Pall Mall Budget*, dated 10th August, 1876. It was suggested that the mints should be closed to the free coinage of silver and the rupee coinage placed entirely under the control of the Government; that as a temporary arrangement the mint should be opened for gold; and that the gold value of the rupee should be fixed at about 1*s.* 11*d.* and notes issued against gold at fixed rates.

The authorities in India did not appreciate the novel idea of establishing a gold standard with a currency mainly composed of token silver rupees issued by the Government. Major-General Strachey's letter called forth a spirited reply* from R. B. Chapman, and in their Despatch to the Secretary of State, dated 13th October, 1876, the Government of India expressed their views on the proposal in no uncertain terms.†

The Government of India favoured the settlement of the silver question by international agreement, but they were of opinion that if an international conference failed to arrive at a satisfactory

* "I am astounded that you should propose such a tremendous heresy as a *permanent* divorce between the standard and the currency. Surely this is nothing in the world but an inconvertible currency, limited, it is true (though I observe that you would not even *limit* it absolutely), but still *inconvertible*. If we are to go in for an inconvertible currency, why should we go to the useless expense of having it in *silver*; surely it would be only commonsense to go to *paper* at once? I have seen plainly that we must go through a period of inconvertible currency of silver with a gold standard; but I have always looked upon this as an evil of the first magnitude from which we should use every exertion to escape at the very earliest opportunity. It startles and staggers me that you should say that such a man as yourself, to say nothing of the rest of the powers that be at the India Office, should have been seduced into thinking otherwise for an instant........Have you not altogether underrated the volume of our silver currency too? A true silver subsidiary currency must I maintain, be treated as a note currency, *i.e.*, it must be issued only in exchange for gold, and the State should be compelled to give gold for it, at convenient centres, on demand, everywhere. Only on these conditions will a silver subsidiary coinage be on a really sound footing; and upon this footing even India will not want, I believe, more than 30 crores at the outset if indeed she wants as much. You cannot seriously think we could *for a permanency* avoid calling in the 170 crores of rupees that we should have in excess of our wants. Nor can I seriously believe that an accurate thinker like yourself would deliberately consent to entrust to any Government on earth the power to issue *token coinage* at its discretion *to pass as full legal tender.* No human Government has yet existed who could be trusted with such a power."

† "We are thus quite aware that our standard of value might be enhanced without any immediate change in the body of our currency; and that we might, for a time, enjoy many of the advantages of a gold standard, without undergoing the expense of introducing a gold currency. But we wholly distrust the advice and conclusions of those who think that such a state of things could be tolerated permanently, or even for any considerable length of time: in other words, that we could introduce an enhanced standard, and yet, indefinitely, escape the obligation to introduce an enhanced currency."

Or 2 sh, £1 = 10 rupees → 10 — —
18 d. , ,, = 13⅓ ,, → 13-5-4

decision regarding silver, it would be necessary to stop the free coinage of silver and introduce a gold standard with a gold currency in India. An International Monetary Conference was convened at Brussels in 1892, but is suspended its labours on December 17, without coming to any definite conclusions. It was to meet again on 30th May, 1893, if the various Governments which were represented in it approved. But it never met again. A month before the meeting of the Brussels Conference the Secretary of State for India had appointed a Currency Committee, presided over by Lord Herschell, to consider the proposals of the Government of India. The Committee accepted these proposals with some modifications. Acting on the advice of the Herschell Committee the Government closed the mints to the free coinage of silver by Act No. VIII of 1893, passed on 26th June, 1893. On the same date three notifications were issued, the first providing for the issue of rupees in exchange for gold presented at the Indian mints at the rate of 16*d*. to the rupee; the second authorising the receipt of sovereigns and half-sovereigns by the Government in payment of taxes and other Government dues at 16*d*. to the rupee; and the third providing for the issue of currency notes in exchange for British gold coin or gold bullion at the same rate.

Foreign Trade, 1873—95

By itself a fall in exchange tends to check imports and to stimulate exports. The imports are checked because the fall in exchange increases the cost, as measured in rupees, of the imported articles and reduces the profit of the importer, unless rupee prices can be raised proportionately. Exports are stimulated (other things being equal) because the same gold price received for goods sold abroad means a higher rupee price. But any serious check to imports must react on exports. Further, it is contended that the producer or exporter makes a gain only at the expense of other classes of the community, particularly the labourers, and only so long as wages and other elements of cost do not rise. In a Despatch to the Secretary of State, dated 9th November, 1878, the Government of India considered it doubtful whether the fall in exchange had exercised any beneficial effect at all on the trade of

India; they also pointed out that the effect of the fall had been much obscured by seasons of extreme drought, commercial depression and political troubles.

During the whole period of falling exchange (1873—95) imports into India increased by a larger percentage than exports. The total value of imports of private merchandise in 1873-74 was 31,62 lakhs and of exports, 54,96 lakhs. In 1894-95 imports had risen to 70,16 lakhs, or 122 per cent, and exports to 108,81 lakhs, or 98 per cent. The greater expansion of the import trade as compared with the export trade is explained by the very considerable fall in gold prices which occurred during this period. It would also seem that while a stable exchange is an undoubted convenience to trade, a country's foreign trade may prosper in spite of a fluctuating exchange.

The 16*d.* rate had been chosen as it represented the exchange value of the rupee in the years immediately preceding the closing of the mints to the coinage of silver. Government hoped to prevent a fall in exchange below 16*d.* by "starving the circulation." If, while population is increasing and trade is expanding, the growth of the currency is restricted, the effect would be to reduce the volume of the currency in relation to trade. The closing of the mints was, however, followed by a further fall in exchange, and the fall continued until the rupee touched its lowest point, 12⅝*d.* in January, 1895. This was due to several reasons. (1) Some 20,000,000 rupees were coined by Government immediately after the closing of the mints. This represented silver received from banks and others shipped to India before the closing of the mints. (2) Many millions of rupees were imported into British India, where the face value of the rupee was greater than its intrinsic value, from Indian (face value being greater than intrinsic value) States. (3) Rupees also came out of hoards. (4) There was an increase in the net circulation of notes, as can be seen from the following figures:—

NET CIRCULATION ON 31ST MARCH

	Lakhs of rupees.
1892-93	26,40
1893-94	30,41
1894-95	30,70

(5) Finally, the Council bills sold by the Secretary of State in 1894-95 amounted to about £17,000,000 as compared with £9½ millions sold in the preceding year. The effect of the increase in the sale of Council bills was to reduce the cash balances in the Government treasuries and to increase the number of rupees in circulation.

Having reached its lowest level in January, 1895, the exchange value of the rupee began to rise, and in the latter part of 1897 it nearly touched 16*d.* The years 1895 to 1898 were a period of the appreciation of the rupee in terms of gold. The exchange value of the rupee was now completely divorced from its bullion value and fluctuated independently of the price of silver.

In August, 1897, the Government of India were asked by the Secretary of State whether they were in favour of re-opening the Indian mints to silver if France and the United States of America opened their mints to silver as well as gold. The Government of India saw no very good reasons for adopting the course suggested. They pointed out that the return to silver monometallism would cause an intense disturbance of trade, and in case the experiment failed, the whole cost of failure would have to be paid by India alone. Further, international bimetallism could not succeed without the co-operation of the United Kingdom, and since the United Kingdom was not prepared to change her monetary standard, the best possible course for India was to link her currency system with that of the United Kingdom, the country with which her trade and fiancial connections were most intimate. The Government of India finally declined to give the undertaking desired by France and the United States. In view of the fact that their currency policy had succeeded in arresting the fall in exchange, their objection to re-opening the mints to the coinage of silver, which meant a reversal of their policy, was well-founded.

Indian Currency, 1898—1914

On 3rd March, 1898 the Government of India sent a communication to the Secretary of State urging the establishment of a gold standard in India. The time had arrived, they said, to put

an end to the uncertainty and fluctuations of exchange. This communication led to the appointment of the Fowler Committee. At the time when the Despatch of 3rd March was written the exchange value of the rupee was still somewhat less than 16*d*. The Government of India proposed to raise exchange by reducing the volume of the silver circulation and replacing the silver withdrawn from the circulation by gold. The circulation was to be reduced by melting down rupees.*

The Fowler Committee rejected the proposal to melt rupees, but before the Committee made its report the rupee had risen to 16*d*., and the Government of India themselves, in the altered circumstances, would not have recommended that measure. The main recommendations of the Fowler Committee were that the sovereign and the half-sovereign should be declared legal tender throughout India at 15 rupees per sovereign, and that a gold standard with its "normal accompaniment," a gold currency, should be established in India. The Committee also recommended that "fresh rupees should not be coined until the proportion of gold in the currrency is found to exceed the requirements of the public," and that "any profit on the coinage of rupees should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."

The reserve was to be used for maintaining the exchange value of the rupee.

* "The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining from drawing Council bills, until we have an accumulation of, say, twenty crores in excess of our ordinary balances. But this procedure would be both costly, and, as we believe, ineffective; in the first place, the permanent locking-up of twenty crores of rupees would cost us in the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and in the second place, the existence of this accumulation of silver coins would be a perpetual menace to the exchange market, and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its place as coin is to be taken by gold. Our proposal is therefore to melt down existing rupees, having first provided a reserve of gold both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures." (*East India Currency*, c. 8840, p. 6.)

The Lindsay scheme for the introduction of a gold standard without a gold currency was rejected by the Fowler Committee.

The Government of India accepted the recommendations of the Committee. The sovereign was declared legal tender, the Gold Standard Reserve was instituted, and active steps were taken to encourage the use of gold as currency. Arrangements were also made for the coinage of gold in India, but the scheme was dropped when it was nearly complete in 1902.

The Gold Exchange Standard

Though the Government of India fully intended to carry out the recommendations of the Fowler Committee, the Indian currency system did not develop along the lines recommended by that Committee. The main features of our pre-War currency system were essentially those of Mr. Lindsay's scheme.

The central idea of the gold exchange system is that gold is not required for internal circulation but for the payment of international indebtedness. For maintaining exchange it is, therefore, sufficient if the national currency is convertible into gold at a constant rate for meeting sterling obligations abroad. When Council bills were sold in London, gold was deposited in the reserves kept there and rupees were issued in India. The circulation contracted when bills were sold in India to meet an unfavourable balance of trade. The Gold Standard Reserve, (Mr. Lindsay's "Gold Conversion Fund") was kept in London, as gold is required for the settlement of the balance of India's foreign indebtedness, and London is an important centre for the settlement of international indebtedness.

These are the main features of Mr. Lindsay's scheme. Several objections were raised against the scheme. The Government of India in their Despatch of 3rd March, 1898, gave as one of their main reasons for deciding not to adopt the scheme that it would involve them "in a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent."*

* *Para. 28 of the Despatch.*

Mr. Lindsay's reply to the objection was that Government would be involving themselves in a greater liability by undertaking to give gold in India. A second objection to the scheme was that the location of the Gold Standard Reserve in London would excite distrust and suspicion. "A gold reserve," said Sir James Westland in his memorandum on the scheme, "intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure."* Mr. Lindsay, however, thought that the foreign capitalist would have greater confidence if the reserve was kept in London. "It is only people who send out capital to India that are concerned in this matter, the people who work with local capital in India will be very much in the same position as they are at present. The token rupees are all they want."†

The chief difference between Mr. Lindsay's plan and the measures proposed by the Government of India was that the former provided for the contraction and expansion of the currency by the withdrawal of rupees from, and the issue of rupees into circulation, while the latter recommended the adoption of the principle of free in-flow and out-flow of gold. If there was no fresh coinage of rupees, the demand for additional currency caused by the growth of trade would be met by the issue of gold coins; if at another time the currency became redundant, the excess would be got rid of by the exportation of gold. Mr. Lindsay's plan, it was also pointed out, invested the Government with some degree of control over the volume of the rupee currency, for new rupees were to be coined from bullion bought at the discretion of the Government. "This is not a feature of the plan," wrote Sir James Westland, "that can commend itself in principle, for the regulation of the sole full legal tender currency of a country should be entirely automatic and not in any degree dependent upon the discretion of the Administration."‡

The chief matters of interest in our currency history in the first decade of the 20th century are the investment of the Gold Standard Reserve in securities in London; the formation in India in 1906 of a rupee reserve as part of the Gold Standard Reserve;

* *East India Currency, cmd. 8840.* p. 18.
† *Evidence before the Fowler Committee, Q. 4057.*
‡ *East India Currency, cmd. 8840,* p. 20.

the diversion in 1907 of profits on the coinage of rupees for capital expenditure on railways; and the sale of sterling drafts by the Government of India in the exchange crisis of 1907-08.

In 1905, and again in 1906, some difficulty was felt in meeting the demand for rupees in India, and this led to the formation for a special rupee reserve which could be utilised for preventing exchange from rising above 1*s.* 4*d.* At first the reserve was held inside the Paper Currency Reserve in the form of silver ingots and then in partly coined rupees, but in 1906 it was decided to hold it in the form of coined rupees only. As the reserve was needed for preventing the rupee from rising to a premimum over 1*s.* 4*d.*, its name was changed to the Gold Standard Reserve, which now consisted of two portions, one held in the form of sterling securities in London, and the other in rupees in India. The rupee branch, like the sterling branch of the Reserve, consisted of the profits on the coinage of rupees.

In 1907 a Railway Committee appointed by the Secretary of State recommended that £1,000,000 out of the profits on the coinage of rupees in 1907 should be devoted to improvements for Indian railways. The Secretary of State went further than the committee and decided that for the future one-half of any profits on the coinage of rupees should be used for capital expenditure on railways until the Gold Standard Reserve reached £20,000,000. It was intended that after that total had been reached, the whole of the profits on silver coinage should be diverted from the Reserve. The Government of India, however, thought that the sterling portion of the Reserve should be allowed to accumulate to £20,000,000 before any sums were diverted from it. In reply to a communication from the Government of India on the subject the Secretary of State said, "The danger which you allege of a fall in exchange I regard as illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve and of gold in the Currency Reserve."* He adhered to his decision and used £1,123,000 of the profits of coinage for railway capital expenditure.

* *Report of the Chamberlain Commission, Para. 36.*

But the danger of a fall in exchange was not illusory. A severe financial crisis in America in the autumn of 1907 and the consequent monetary stringency in the money markets of the world, combined with the failure of the summer monsoon in India in 1907, caused Indian exchange to fall suddenly in November. The Exchange Banks asked Government to sell telegraphic transfers on London at 1*s.* 4*d.* per rupee, but the Government, after consulting the Secretary of State, refused. The Government also refused to give gold for export from the Paper Currency Reserve in larger quantities than £10,000 to any one individual in one day. The exchange continued to fall and on November 23 it fell to 1*s.* 3-23/32*d.* Indian importers began to buy British Postal Orders for £10,000 and other large sums as a means of making sterling payments, and then at the instance of the Secretary of State the Government of India began to give gold for export. The Government also informed the Exchange Banks on 27th December that, should it become necessary, they would offer for tender in India sterling exchange on London. On 26th March, 1908, sterling bills were first sold in India, and they continued to be sold till 11th September, 1908. In all £8,058,000 was withdrawn during this period from the Gold Standard Reserve to meet the bills.

The crisis of 1907-08 showed that strong gold reserves were essential for the maintenance of exchange. During the crisis £4,179,000 was withdrawn by the public from the Paper Currency Reserve, while only £250,000 was exported on private account. Another lesson taught by the crisis was 'the desirability of formulating in advance and giving publicity to the policy which it is intended to pursue in a crisis." "It is almost as important," wrote the Chamberlain Commission, "that the general public should have confidence in the determination of the Government effectively to use their resources to maintain the rupee at 1s. 4*d.* as it is that the Government should have the necessary resources for so doing."*

* *Para. 52 of the Report of the Chamberlain Commission.*

THE CHAMBERLAIN COMMISSION

The Chamberlain Commission was appointed in April, 1913, to consider, among other matters, "the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of, or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition and employment of the Gold Standard and Paper Currency Reserves." The Commission approved of the measures adopted by the Government in order to maintain the exchange value of the rupee, though these measures were "less in pursuance of the recommendations of the Committtee of 1898 than supplementary to them." This is shown by the fact that the Government abandoned the attempt to encourage the use of sovereigns in India, and kept the Gold Standard Reserve in London for the support of exchange. The Commission were not in favour of introducing a gold circulation in India. "The establishment of the gold value of the rupee on a stable basis," they wrote, "has been and is of the first importance to India."* Gold in actual circulation is of little use for the support of exchange. Further, they tried to show that the attempt to encourage the circulation of gold would necessarily weaken the gold reserves of the Government, and thus make it difficult for Government to maintain exchange in a time of crisis. To the objections that without gold in active circulation India's currency system would remain a "managed" system their reply was that there was no "essential difference between the power to import sovereigns at will and the power to have gold coined into sovereigns in India." They finally concluded that "It would not be to India"s advantage to encourage the increased use of gold in the internal circulation." In paragraph 76 of their report, the Commission said:—

"To sum up, our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this

* *Para. 76 of the Report.*

is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations."

As regards the Gold Standard Reserve the Commission did not fix any limit up to which the Reserve should be accumulated. They recommended that the profits on the coinage of rupees should, for the present, continue to be credited exclusively to the Reserve and that Government should aim at keeping one-half of the total Reserve in actual gold. The rupee branch of the Reserve they considered to be "responsible for much confusion and doubt as to the efficiency of the Reserve" and they recommented its abolition. They did not consider it necessary that the use of the Reserve should be regulated by statute. "But we advise," they said, "that the Government should make a public notification of their intention to sell bills in India on London at the rate of 1s. 3 29/32d. whenever they are asked to do so (as was actually done in 1908 and confirmed in 1909), to the full extent of their resources. We believe that the knowledge that such exchange can be purchased at any time will do much by itself to inspire confidence, and so to reduce the actual demand for drafts on London, and to prevent that feeling of panic which is liable to accompany and to aggravate periods of financial strain. With the Reserve for the support of exchange so strong as it will, we hope, prove, if our recomendations are accepted, we do not think that there is any reason to fear that in undertaking this liability the Government of India would be in any danger of being unable to carry out their obligation."

Only partial action could be taken by the Government on the Report of the Chamberlain Commission, as the War broke out shortly after the publication of the Report in 1914. Government issued a notification in 1914 guaranteeing to issue sterling drafts on the Secretary of State in London. The Silver branch of the Gold Standard Reserve was also abolished in 1914 by the transfer of 6 crores of rupees held in the silver branch to the Paper Currency Reserve for an equivalent amount of gold.

3. Indian Currency 1914—1920

Having learnt in the crisis of 1907-08 how to use their gold reserves for the support of exchange, Government were fully prepared to meet the weakening of exchange which was the immediate result of the outbreak of war. Between 6th August, 1914, and 28th January, 1915, Reverse bills were sold to the extent of £8,707,000. Reverse bills were again sold in 1915-16 (£4,893,000) and between November, 1918, and April, 1919 (£5,465,000). Apart from these temporary periods of weakness, our currency troubles during the greater part of the War were due, not to a falling rupee, but to a rupee whose exchange value rose to unexpected and unprecedental heights.

A gold exchange system is an artificial system in the sense that the rate of exchange under this system does not depend upon the intrinsic value of the silver coin. Before 1893, every fall in the price of silver reduced the exchange value of the rupee, but during the whole period between 1899 and 1916, the fluctuations in the price of silver excerised no influence upon the course of the rupee exchange. Exchange rose and fell according to the supply of, and the demand for foreign bills. The exchange value of our rupee was thus completely divorced from its bullion value.

But it should not be supposed that as soon as a country has conferred an artificial gold value upon its silver coin, the market price of silver becomes a matter of indifference. Violent fluctuations in the price of silver in either direction would destroy the system, or make it impossible to work. The essential feature of a gold exchange system is the use, for purposes of internal circulation, of a token coin which is convertible into gold for foreign remittances at a more or less constant rate. When a token coin ceases to be a token coin, on account of the rise in the value of its metallic content, the gold exchange system automatically ceases to exist. It thus appears that the existence of the gold exchange system and its successful operation depend upon steadiness in the value of silver. For the purposes of the gold exchange system it is comparatively a matter of indifference whether the ratio of silver to gold is high or

low, but it is not a matter of indifference whether the ratio is steady or subject to frequent and violent changes.

This aspect of the question was duly considered by the American Commission on International Exchange of 1903. In the arguments submitted by the American Commission to the foreign Commissions there was a whole section devoted to "Considerations regarding the price of silver." "Whether the absolute price of bar silver be high or low," wrote the American Commission, "is a matter of comparatively slight importance, inasmuch as the ratio could be fixed to correspond, provided the price remains steady; but if after a ratio had been once fixed, the price were to increase decidedly (so that the bullion value of coins exceeded their nominal value) the coins would be melted down and the system would be destroyed. On the other hand, if the price of silver were to fall very low, the burden of maintaining the parity would be heavier, inasmuch as a larger gold reserve fund might be required to maintain confidence. It is extremely desirable, therefore, especially for the countries that are somewhat weak financially, that the price of silver bullion should remain steady at a point somewhat near the ratio agreed upon."*

In India attention had been concentrated on devising means for preventing the rupee from falling below a certain level. The possibility of a rise in the rupee much above its gold parity was never serviously considered by Government or any one else. This is certainly curious in view of the fact that the rise in the price of silver in 1906-07 caused the gold exchange system of several countries to collapse, though it did not affect us.

The rise in the price of silver in September, 1917, to 55*d.* put an end to our gold exchange system. The rupee ceased to be a token coin—there was profit in melting and exporting it. As the price of silver continued to rise, the maintenance of the old ratio, 16*d.* to the rupee, became impossible. The rise in the cost of production of the rupee compelled the Secretary of State to raise the price of rupees. The minimum rate for Immediate Telegraphic Transfers, which on 28th August, 1917, had been fixed at 1*s.* 5*d.*, was raised to 1*s.* 6*d.* on 12th April, 1918, 1*s.* 8*d.* on 13th May, 1919, 1*s.* 10*d.* on 12th August, 2*s.* on 15th September, 2*s.* 2*d.* on 22nd November and 2*s.* 4*d.* on 12th December, 1919.

* *Stability of International Exchange, Washington, 1903, p. 124.*

Bullion par of the Rupee — [illegible]

The price of silver at which the Rupee and bullion [illegible]

A contributory cause of the rise in exchange was the strong demand for rupees due to the heavy balances of trade in India's favour. But even without the assistance of the favourable balances of trade the rise in the price of silver was sufficient to destroy our system. If the rise had occurred, not during the war but before the war, the collapse of the gold exchange system would have been as complete as it was during the war. It should be recognised that the collapse of the gold exchange system was due, not so much to war causes, as to the simple fact that the price of silver rose above the bullion par of the rupee.

When the price of silver rises so that the intrinsic value of the token coins exceeds the face value, the gold exchange system can be re-established either by raising the gold par or by debasing the token coins. The majority report of the Babington Smith Committee, appointed by the Secretary of State in May, 1919, to consider the Indian currency situation, recommended the raising of the exchange value of the rupee to 2*s.* (gold). The chief objection to the reduction in the weight or fineness of the rupee was that it would "react gravely on the credit of the Government and possibly lead to serious social and economic consequences."* The 2*s.* rate was chosen as the Committee believed that if the exchange value of the rupee was fixed at a figure lower than this, the rupee could not be established as a token coin. The price of silver throughout 1919 was high and in February, 1920, it reached the high water-mark of 89½*d.*, and it seemed probable that for many years to come it would remain at a high level. Recoinage being impossible, a stable gold exchange standard could be ensured only by raising exchange, and raising it enough to make the rupee safe from the melting pot.

Indian press comment on the recommendations of the majority report of the Babington Smith Committee was unfavourable. The effect of a high exchange in stimulating imports was one of the chief grounds of objection to raising the exchange value of the rupee.

* *Para. 38 of the Report.*

In so far as a high exchange encouraged imports, it would favour the British manufacturer at the expense of his Indian rival. "High exchange," said Mr. Aniscough, "places the British manufacturer in a more favourable condition *vis-a-vis* his competitor in India. On the whole, therefore, his meterial interests would appear to be best served by the fixation of exchange at as high a rate as may be possible under the circumstances."†

The report of the Indian Currency Committee was well-received by the British press, as may be judged from the following extract from an article on "Trade and the New Rupee Basis" in the *Times Trade Supplement* of February 7, 1920.

"Apart from the possibilities of international action, the hope of arresting sterling depreciation lies in increasing production in the United Kingdom, with consequent large shipments abroad, so that our former position as a creditor country may be ultimately restored. The immediate effect of the new sterling rate of rupee exchange should be that of stimulating our exports to India, while restricting our purchases therefrom. The report of the Committee referred to in detail elsewhere naturally avoids laying great stress on the point, but it is one which appeals to our manufacturers, as is shown by the favourable opinions with which the recommendations have been received in the industrial North."

The Government accepted the recommendations of the majority report of the Babington Smith Committee. The attempt, however, to maintain exchange at 2*s.* (gold) did not succeed.

The history of our exchange during 1920 may be divided into three periods:—

(*a*) From the adoption of the report of the Babington Smith Committee in February to June 24 when Government lowered the rate to 1*s.* 11 19/32*d.* for Telegraphic Transfers and 1*s.* 11 13/16*d.* for Deferreds.

(*b*) From June 24 to September 28 when Government withdrew the sale of Reverse bills.

(*c*) The period of uncontrolled or free exchange after September 28.

(*a*) The adoption of the report of the Babington Smith Committee raised the rate of exchange from 2*s.* 4*d.* to 2*s.* 10½*d.* In order to maintain

† P. 38 of Mr. Ainscough's *Report on the Conditions and Prospects of British Trade in India at the close of the War.*

the 2*s.* (gold) rate, it was decided to fix the rates for Reverse Councils in accordance with the ratio of Rs. 10 to the sovereign, making allowance for the depreciation of sterling on the basis of the latest rate for the dollar sterling exchange. Immediate Telegraphic Transfers were sold on 5th February at 2*s.* 8-15/16*d.*; at the following sale the rate was raised to 2*s.* 10-23/72*d.* As the Government rate was higher than the market rate the amounts offered at these and subsequent sales were largely over-subscribed. The Comptroller of Currency in his report for 1919-20 says:—

> "When at the commencement of February the rate for Reverse Councils went to 2*s.* 8-15/16*d.* the market rate for Telegraphic Transfers on London was quoted at 2*s.* 7¾*d.* At these rates an overwhelming demand for sterling remittance arose and the Reverse Councils sold were insufficient to bridge the gap betwen the demand for sterling remittance and the demand for remittance to India."

On February 19, £2,000,000 was offered at a difference of about 3*d.* over the market rate; the applications were for no less than £122,333,000. In March the difference between the Bank rate for Telegraphic Transfers and the official rate was about 1½*d.* and applications fell off to £56,295,000. The difference fell to about one penny in April, but by the middle of May it had increased to 4 15/32 *d.* and applications were again received for more than £122,000,000. At the sale on 15th June, for a third time, while £1,000,000 was offered, tenders were received for upwards of £122,000,000, the difference between the Government rate and the market rate being more than 7*d.*

Having regard to the fall in the market rate for sterling Government, as stated above, lowered the rates to 1*s.* 11-19/32*d.* for Telegraphic Transfers, and 1*s.* 11-13/16*d.* for Deferreds, on June 24. They frankly abandoned the attempt to maintain exchange at 2*s.* (gold), considering it hopeless. According to the Currency Committee the rate for Immediate Telegraphic Transfers on London was to be based on the sterling equivalent of 11·33016 grains of fine gold as measured by the prevailing dollar-sterling exchange. The equivalent was 2*s.* 5*d.* per rupee, while the new Government rate was 1*s.* 11-19/32*d.*

(*b*) The weekly offer of sterling drafts on London continued till the end of September, when the Government withdrew the offer, not without "reserving to themselves the right of resuming these sales should circumstances, in their opinion, at any time subsequently render resumption expedient."

Thus ended the attempt of the Government to stabilise exchange in accordance with the recommendations of the Babington Committee.

From January to September, 1920, Reverse bills to an amount of £55,000,000 were sold, which figure constitutes a record in the annals of our finance. The bills were sold at rates which very often were " absurdly

cheap compared with the market value" (*The Times*, London). "The favoured allotments of the bills," in the words of the Indian trade correspondent of the *Manchester Guardian Commercial* "became a very grave scandal."

(*c*) Exchange fell rapidly in October (1920). The situation was tersely summarised by a Calcutta merchant who, when questioned by a correspondent of an English financial paper, said that there was no exchange. To support exchange Government raised the embargo on the export of wheat from October, 1920, till March, 1921. A total export of 400,000 tons was allowed. There was, in 1919-20, as compared with 1918-19, an increase of 26 per cent in the area under wheat, and of no less than 34 per cent in the yield, which was estimated at 10,092,000 tons. The wheat exports, however, did not exercise any perceptible influence on exchange. On 28th December, 1920, the rate for Telegraphic Transfers was 1*s.* 5*d.* per rupee, and it continued to fall until on March 9, 1921, only 15*d.* could be purchased with a rupee. Then it rose a little, but throughout the remaining eight months, till the end of the year, it remained a little below 1*s.* 4*d.* sterling (about 13*d.* gold).

The entirely unexpected fall in exchange involved our importers in serious losses and many of them refused to meet their obligations. What a fall in exchange means to importers may be shown by an example. At 2*s.* goods of the value of £1,000 are worth Rs. 10,000. When exchange falls to 1*s.* 4*d.*, Rs. 15,000 must be paid to take delivery of the same goods—a loss of Rs. 5,000. It is not surprising that many importers tried to back out of their contracts. Faced with bankruptcy, they cancelled the purchases they had made.

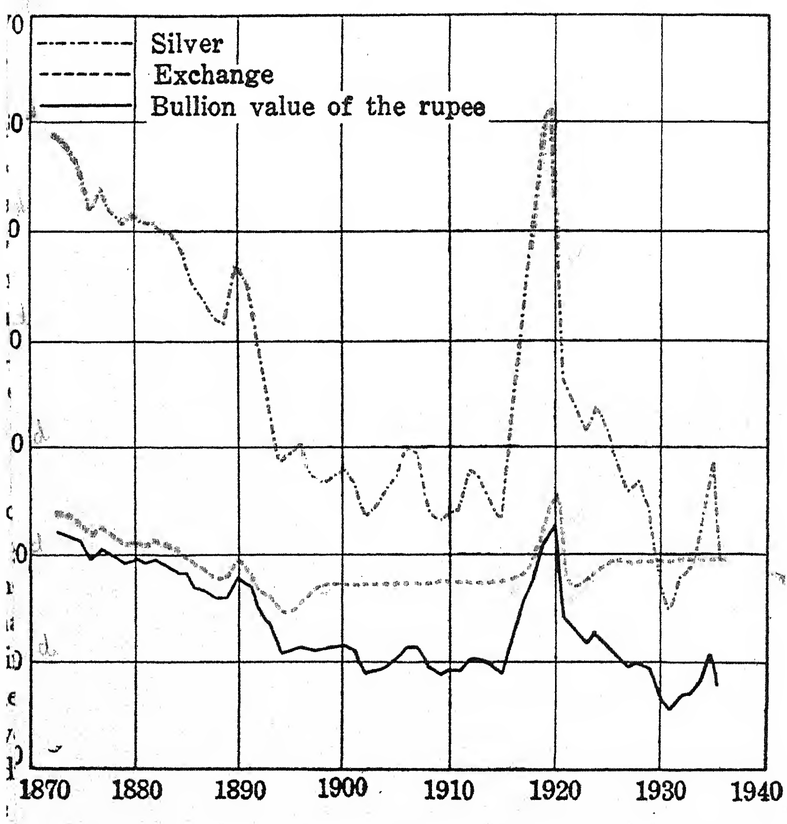
The action of our importers in refusing to meet their obligations cannot be defended, but in many cases such refusal was due to real inability to pay. It should also be remembered that Government had accepted the recommendations of the Babington Smith Committee, and attempted to stabilise exchange, as we have seen, first at 2*s.* gold, and then at 2*s.* sterling. In these circumstances it was natural for people to think that exchange would not fall below 2*s.* sterling, and when exchange fell below that rate they thought Government was to blame for it.

The fall in the rupee was accompanied by a fall in the price of silver, and there was a close connection between the two move-

ments. The year 1920 will rank as one of the most eventful years in the history of silver and of the rupee. As we have seen, it saw the rise of the rupee to the highest level ever recorded during the last 75 years, and an equally sensational fall. The price of silver also varied between very wide limits in 1920, 89 ½*d.* in February and 38⅞*d.* in December. The price of silver exercised an important influence, not only on the rupee but on the currencies of other Eastern countries. For example, the highest quotation for the Hongkong Dollar in London in February, 1920, was 6*s.* 2*d.* and the lowest in December, 2*s.* 11*d.;* similarly for the Shanghai Tael, the highest quotation in 1920 was 9*s.* 3*d.* and the lowest 3*s.* 10½*d.* The rise in the price of silver re-established the connection between the exchange value and the bullion value of the rupee which had existed before 1893, and when the price of silver fell, the exchange value of the rupee fell with it. The fall in silver is attributed to the cessation of the Chinese demand, the absence of purchases by the Indian Government and the absence of buying by the European mints. During 1920 France and her partners in the Latin Monetary Union melted down and sold practically the whole of their silver currency. A certain section of the British press held France responsible for breaking the Eastern exchanges.

The accompanying chart shows the exchange value and the bullion value of the rupee from 1873 to 1932. It will be seen that the fall in exchange from 1873 to 1895 was in consequence of the fall in the bullion value of the rupee. From 1895 to 1898 exchange rose, and from 1898 to 1915 it remained stable at 16*d.* During the whole of this period the price of silver exercised no influence on the movements of exchange. But the connection between exchange and the bullion value of the rupee was reestablished during the War when the price of silver began to rise rapidly. The two curves move in the same direction in the years 1915—1922; then they again separate.

CHART NO. 30 PRICE OF SILVER, STERLING EXCHANGE AND BULLION VALUE OF THE RUPEE, 1873-1936.



Exchange and Price of Silver, 1873—1936

		Exchange *d.* per Re.	Silver *d.* per oz.	Bullion value of the Re. *d.*
1873	..	22·88	59·25	22·02
4	..	22·88	58·31	21·67
5	..	21·75	56·88	21·14
6	..	20·56	52·75	19·61
7	..	21·38	54·81	20·37
8	..	20·56	52·56	19·53
9	..	19·94	51·25	19·04
1880	..	20·03	52·25	19·42
1	..	19·75	51·69	19·26
2	..	20·33	51·63	19·19
3	..	19·83	50·56	18·79
4	..	19·81	50·63	18·14
5	..	18·83	48·63	18·07
6	..	17·94	45·38	16·86
7	..	17·28	44·63	16·58
8	..	16·53	42·88	15·93
9	..	16·63	42·69	15·86
1890	..	18·53	47·69	17·72
1	..	17·22	45·06	16·74
2	..	15·25	39·81	14·79
3	..	15·08	35·31	13·12
4	..	13·5	28·94	10·75
5	..	13·34	29·88	11·10
6	..	14·44	30·75	11·43
7	..	15·28	27·56	10·24
8	..	16	26·94	10·01
9	..	16·11	27·44	10·2
1900	..	16·09	28·25	10·5
1	..	16·07	27·19	10·1
2	..	16·06	24·06	8·94
3	..	16·13	24·75	9·2
4	..	16·15	26·38	9·8
5	..	16·15	27·81	10·33
6	..	16·31	30·88	11·46
7	..	16·34	30·19	11·22
8	..	16·16	24·38	9·06
9	..	16·38	23·69	8·8

EXCHANGE AND PRICE OF SILVER, 1873—1936—(*Contd.*)

		Exchange *d.* per Re.	Silver *d.* per oz.	Bullion value of the Re. *d.*
1910	..	16·31	24·63	9·15
1	..	16·31	24·56	9·13
2	..	16·34	28·03	10·42
3	..	16·38	27·56	10·24
4	..	16·38	25·31	9·41
5	..	16·31	23·69	8·8
6	..	16·50	31·31	11·63
7	..	17·06	40·88	15·19
8	..	18·25	47·56	17·67
9	..	22·09	57·06	21·2
1920	..	24·63	61·44	22·83
1	..	16·63	36·88	13·7
2	..	15·85	34·44	12·8
3	..	16·38	31·94	11·87
4	..	17·63	34	12·63
5	..	18·44	32·13	11·94
6	..	18·25	28·69	10·66
7	..	18·13	26·03	9·67
8	..	18·34	26·75	9·94
9	..	18·34	24·44	9·07
1930	..	18·06	17·69	6·56
1	..	18·25	14·59	5·42
2	..	18·98	17·84	6·63
3	..	18·156	18·156	6·74
4	..	18·189	21·219	7·88
5	..	18·279	29·0	10·77
6	..	18·219	20·063	7·44

Notes.—Exchange on London at four months' sight; from 1873 to 1884 at six months' sight. Yearly average. Price of silver in London per standard oz. Yearly average.

(Source: Statistical Abstract for British India.)

The rupee contains 180 grains of silver 11/12 fine, or 165 grains of fine silver. When the price of silver in London is 43*d.* per oz. the value of the metallic content of the rupee is 15·979*d.* (making no allowance for cost of reduction to bullion).

4. The Gold Bullion Standard

We have seen that the attempt to stabilise exchange at 2*s.* failed in 1920. Soon after the publication of the Report of the Babington-Smith Committee economic conditions began to change so rapidly as to make the proposals of the Committee regarding exchange stabilisation imparticable. There was in the first place, as we have seen, a rapid and unexpected fall in the price of silver, and in the second place, the beginning of a heavy fall in commodity prices all over the world.

The rate of exchange for Calcutta Telegraphic Transfers on London (average of daily rates) was 2*s.* 0*d.* in 1920; it fell to 1*s.* 4*d.* in 1921 and 1*s.* 3*d.* in 1922. Exchange gradually rose after July, 1922. The average of daily rates for each month of the year 1922 was less than 1*s.* 4*d.*; but in 1923 it never fell below that level, and in December, 1923, it exceeded 1*s.* 5*d.* The average rate was 1*s.* 6*d.* for the first nine months (January to September) of 1925. In August, 1925, a Commission, with Mr. Hilton-Young as President, was appointed to examine and report on the Indian exchange and currency system and practice. This was the second Royal Commission, as the Babington-Smith Committee was the third Committee, which, since 1892, was called upon to make proposals regarding Indian currency reform.*

The Currency Commission recommended the adoption by India of the gold bullion standard. The gold exchange standard was definitely condemned by the Commission as unsatisfactory. We have the important admission that the gold exchange standard does not work automatically, and that it is not elastic. "The automatic working of the exchange standard," says the Report (para 16), "is thus not adequately provided for in India, *and never has been*" (italics mine). The Report refers to "the

* *Currency Committee or Commission*	*Year of appointment*
1. Herschell Committee	1892
2. Fowler Committee	1898
3. Chamberlain Commission	1913
4. Babington-Smith Committee	1919
5. Hilton-Young Commission	1925

absence of contraction on occasions when the currency authority has had to sell sterling exchange." In 1920 the consequences of this were "disastrous." And the Report adds:

> "There must ever be danger of such disaster under a system which does not automatically enforce contraction of internal currency concurrently with the depletion of Reserves."

These remarks would undoubtedly be read with interest by certain official apologists who, like Mr. Findlay Shirras, regard the gold exchange system as an "improved gold standard," as "a system of money which has become and must become increasingly popular," and who were lost in admiration of "the beautiful elasticity of our currency system."*

The main recommendations of the Currency Commission may be briefly summarised as follows:—

When the gold bullion standard is introduced, the currency will consist of silver rupees and notes, which will be directly convertible into gold bullion. There will be no gold in circulation.

The paper currency will cease to be convertible by law into silver coin (para 69).

The chief feature of the gold bullion standard is the convertibility of token money directly into gold bullion for all purposes. The Currency Commission attached great importance to it. Under the old system paper money was convertible by law only into silver rupees, which are themselves token coins. By making notes convertible by law into gold bars for all purposes, "a more solid right of convertibility is attached to them than they have ever had since silver ceased to be a reliable standard of value (para 69). Para 61 of the Report states:

* *Indian Finance and banking* 1920, p. 37.

"The Indian currency system of to-day is, however, quite as automatic as it was previous to the closing of the Mints to the free coinage of silver." (*Datta's Report on prices*, para 228).

The Chamberlain Commission of 1914 denied that the gold exchange system gave India "an artificial and managed currency." "It is not in fact possible for the Government of India," says the Report of the Chamberlain Commission (para 66), "to manipulate the currency, and they cannot add to the active circulation of the currency except in response to public demand."

"For the purposes of India this standard [gold bullion standard] fulfils the essential condition, that it should be not stable only, but simple and certain. It provides the token currency with a right of convertibility that is intelligible to the uninstructed, and with a backing that is tangible and visible."

This recommendation of the Currency Commission has been misunderstood. It has been thought that under the gold bullion standard token money will be freely convertible into gold, not merely for export, but for internal purposes. It was easy to make this mistake; for the "uninstructed" could not be expected to see the "tangible and visible" backing of the token currency, unless token money was freely convertible into gold for internal use.

In *theory* token money, under the gold bullion standard, will be convertible into gold for *all* purposes; in *practice* it will be convertible into gold only for export.

In para 64 of the Report it is explained that gold will not be sold by the currency authority cheaper than the market rate. The wholesale bullion market which exists now is not to be destroyed. If the currency authority were compelled to sell gold at a price exactly corresponding to the par value of the rupee (*i.e.*, cheaper than the market rate which includes the cost of import), the consequences will be serious:—

"Apart from practically destroying the wholesale bullion market, the currency authority would inevitably become involved in the performance of a task which does not properly belong to it. Its primary duty of maintaining the monetary unit at parity with gold would be made far more difficult. . . ."*

Now suppose that a large amount of gold was wanted for internal use and the gold reserves of the Bank began to disappear. To meet the loss of reserves owing to an internal drain the Bank would be forced to restrict credit. This, says Schedule I, "would have highly injurious reactions on the internal economy of India, and should consequently be avoided." Therefore,

* Schedule I is even more explicit:

"The reserves," it says, "exist to assure the maintenance at parity with gold of the purchasing power of the monetary unit, *i.e.*, to meet purely monetary needs. It is evident that if they can be drawn upon in the ordinary course to satisfy non-monetary purposes to anything but a minor extent, the Bank's primary task, *viz.*, to maintain the external value of the currency, will be jeopardised."

"It is required so to frame the Bank's obligation to sell gold as to make it unprofitable for gold to be bought from it except in circumstances in which it would be profitable to do so for purely monetary purposes."

"The purely monetary purposes" referred to in Schedule I relate to gold for export, and not to gold given for hoarding or for making ornaments. Gold bullion cannot be used for the purpose of circulation within the country, and it is used for monetary purposes only when it is sent abroad in settlement of foreign obligations.

It is thought that even when the balance of trade is in India's favour (and consequently, the rate of exchange above 1*s.* 6*d.*) the currency may need to be contracted, and the Reserve Bank must sell gold to the public in order to reduce the volume of our token currency. This is not how the Currency Commission have argued. In para 115 of the Report they state:

"And if the exchanges are stable, and keep within the upper or lower gold points set by the fixation of the price at which the Reserve Bank undertakes to buy and sell gold, it will not be called upon either to buy or sell gold."

The Reserve Bank will be called upon to sell gold only when, as the result of an adverse balance of trade, the exchanges turn against India.

It should be clear that so far as the ordinary holder of rupees or notes is concerned, he would not be able to convert them into gold. When he wants gold he must buy gold in the bazar, as at present.

It will be seen that from the point of view of convertibility there is no fundamental difference between the gold exchange system and the gold bullion standard of the Currency Commission. The essential feature of both is that the internal currency consists of token money, which is convertible into gold for the payment of international indebtedness.*

*"In applying Ricardo's proposals to India," wrote Mr. Lindsay, "little modification is necessary either of the proposals or of Indian currency arrangements. The only change in the proposals will be the substitution of sterling money for gold bars, and rupees for paper money." (*Ricardo's Exchange Remedy* by A.M.L., p. 8.)

For the satisfactory working of the gold exchange system it is not essential that notes should be printed on silver. When our paper money ceases to be convertible into silver rupees, we shall have what is regarded as the " ideal " currency system, that is, a currency system in which the internal currency consists of paper, convertible into gold for the settlement of foreign obligations. Para 56 of the Report says:—

> " It is argued by many who advocate the introduction of a gold currency, that a token currency of notes inconvertible for internal purposes is the ideal end towards which India should work. The scheme outlined below carries India very far along the road towards that end. . . . . "

A Memorandum* on a gold standard for India was submitted to the Commission by Mr. H. Denning, Controller of Currency. The Memorandum represented the result of discussions between Sir Basil Blackett (Finance Member, Government of India), Mr. McWatters (Secretary to the Government of India, Finance Department) and Mr. Denning, but it was not put forward as an expression of the views of the Government of India.

The main defects of the pre-war currency and exchange system, discussed in the Memorandum, were as follows:—

(*a*) The currency system was liable to break down, as it actually did during the war, when the price of silver rose above the bullion par of the rupee.

(*b*) The rupee was linked to sterling only, and the system ceased to be a gold exchange standard as soon as sterling depreciated.

(*c*) The Government were under no statutory obligation to sell gold or gold exchange at a fixed rate at a time of exchange weakness.

(*d*) When Reverse Councils were sold, Government could arrange by borrowing from the Gold

The defects (a) and (d) can be removed only if an automatic currency

Dr. Edwin Cannan, in his evidence before the Currency Commission, thus commented on the difference between the gold exchange system and the gold bullion standard.

"I think when you get on to the bare bones of the gold exchange system there is very little difference between the two; some people say that this country [England] is on a gold exchange standard system now." Evince Vol. V. P. 162, Q. 13,210.

* *Appendix to the Currency Report,* 1925-26,II, 43.

i.e. by export of gold or Reverse Bills issued against against the Gold Std. [illegible] in London — the [illegible] foreign obligations met. That Reserve is India's Reserve. The Govt. takes rupees for Bills by burying the money or give it over to a Bank. Contraction depends [illegible] Govt.

[illegible] as gold falls [illegible], gold is deposited in in India's a/c [illegible] bills arrive [illegible] and are [illegible] into rupees [illegible]

Standard Reserve to meet sterling payments on account of the Reverse Councils without affecting the amount of currency in circulation. The circulation, thus, was not automatically reduced, but such decrease depended on the action of Government. This is shown by the following statement:—

Years.		Amount of Reverses sold. £1000.	Rupees received for Reverses sold. Rs. Lakhs.	Amount of contraction effected. Rs. Lakhs.
1907-08-09	..	8,058	12,16	12,16
1909-10	..	156	24	*Nil*
1914-15	..	8,707	13,16	1,05
1915-16	..	4,893	7,38	34
1918-19	..	5,315	7,08	Nil
1919-20-21	..	55,532	47,14	34,68

If not interfering, the amount of contraction effected must be equal to rupees received for Reverse Bills

(*e*) The effective regulation of the money market was impossible as the currency and the banking reserves were controlled by different authorities, the former by the Government and the latter (in so far as it was controlled at all) by the Imperial Bank.

It is admitted in the Memorandum that defects (*b*) and (*c*) could be completely remedied even under the gold exchange standard by imposing a statutory obligation on the currency authority to buy and sell gold and gold exchange at fixed rates. As regards the other defects, while the management of the note-issue can be handed over to a Central Bank, so long as the ruppee is the principal form of money and unlimited legal tender, a separate reserve must be maintained by Government to provide against a return of rupees from circulation; the entire system must also remain exposed to the danger of a rise in the price of silver. The two defects (*a*) and (*d*) can be remedied only by the adoption of the gold bullion standard or the gold standard with a gold currency in circulation. The Memorandum thus comments on these alternatives:—

"Undoubtedly the ideal to be aimed at is the system now in force in Great Britain, under which the note is the sole legal tender in circulation, and the gold value of sterling is stabilised by the statutory obligation imposed

All balances are kept with the [illegible]

on the Bank of England to buy and sell gold at rates corresponding roughly to the par of exchange. It is impossible, however, to hope that conditions in India will for generations be such that a full legal tender metallic currency will be no longer necessary. If therefore a gold currency is not introduced, defects in the Indian currency and exchange system must remain indefinitely. There is, moreover, reason to suppose that the introduction of a gold currency would hasten the attainment of the ideal system, as the fact that notes were convertible into gold and not merely into an overvalued silver coin would tend to increase confidence in the note-issue and to decrease the demand for metallic curency. The conclusion is that the only way of remedying all the defects in the system within a reasonable period is by establishing a gold standard with a gold currency in circulation."

A practical scheme for the introduction of the gold currency standard by stages was outlined in the Memorandum. The estimated amount of gold required for the purpose was £103 millions; of this amount £15 millions was required at the time of the initiation of the first stage, a further £35 millions within a year, and the remainder over a period of ten years. U.S.A. was approached for a loan, she declined since a gold standard in India meant loss of American silver market in India

The scheme was rejected by the Currency Commission.

The Government accepted the main recommendations of the Currency Commission, and in 1927 the exchange value of the rupee was fixed at 18*d*. gold. [1927. higher than prewar rate of 1s. 4d]

The question of a gold currency is no longer a practical one. But it is a fact that India would prefer an automatic system of currency, based on a circulation of gold coins, to the gold bullion standard of the Hilton-Young Commission. A genuine demand for gold for currency purposes existed in India before the War. After the sovereign became legal tender (1899) the import and absorption of sovereigns into circulation increased rapidly, and official inquiries showed that the sovereigns were used as money.

The attitude of the people of India towards gold is different from that of their Government. This is shown not only by the Government view of gold exports but by Government currency and exchange policy between 1901 and 1920.

The gold exchange standard was recommended for India by Mr. Lindsay chiefly on the ground that under this system the

demand for gold is reduced to a minimum. On page 12 of his pamphlet entitled *Ricardo's Exchange Remedy* (1892), Mr. Lindsay thus explains the advantages of the gold exchange system.

"*In this way a gold standard might be established in India without risk and considerable profit to the State and the Bank of England, and with advantage to the London money market. There would be no increase in the demand for gold, and little decrease, if any, in the demand for silver.*"

The main object of the sale of Council Bills by the Secretary of State for India in excess of the Home Charges was to reduce the movement of gold from England to India.* Again in 1920,

* Mr. O. T. Barrow, who gave evidence before the Chamberlain Commission as the representative of the Government of India, frankly told the Commission that it was "desirable to check the excessive importation of gold into India." If gold was allowed to come to India, it would be used for currency or for hoarding. In either case, said Mr. Barrow, "if it went into the country and stayed there, it would mean a further drain of gold from England. It must mean a further drain, whichever it is."

Another witness, Mr. W. B. Hunter (of the Presidency Bank of Madras), who gave evidence before the same Commission, thus replied to Sir James Begbie's question regarding the Council Bill system:—

Q.—You also favour the Council Bill system with the object of reducing the movement of gold coin from Europe to India?—This is so.

Q.—Your object is to prevent gold coin coming into India?—To prevent unnecessary gold coin being withdrawn from London at times of pressure, as I hold that a tight money market reacts on the Indian export trade.

Q.—Your object is to prevent disturbance of the London money market?—That is my chief object.

Q.—You propose to achieve that by sale of bills in London to the extent that would be sufficient for that object?—Yes.

Mr. Lindsay before the Fowler Committee of 1898:

Q.—3593. Do you think this [gold currency for India] would, under the circumstances, lead to an injurious appreciation of the standard of value?—I think, myself, that the two uses of gold combined, for hoarding and for internal circulation, would be so enormous that it would create a serious disturbance in the London money market.

one of the reasons for fixing the exchange value of the rupee at 2s. (gold) was to lessen India's demand for gold.*

NET IMPORTS OF GOLD, 1855-56 TO 1937-38

Year.†	Lakhs.	Year.†	Lakhs.
1856	2,51	3	4,93
7	2,09	4	5,46
8	2,78	5	4,67
9	4,43	6	2,76
1860	4,28	7	2,18
1	4,23	8	2,99
2	5,18	9	2,81
1863	6,85	1890	4,61
4	8,90	1	5,64
5	9,84	2	2,41
6	5,72	3	—2,81
7	3,84	4	64
8	4,61	5	—4,97
9	5,16	6	2,53
1870	5,59	7	2,29
1	2,29	8	4,91
2	3,56	9	6,50
3	2,54	1900	9,44
4	1,38	1	84
5	1,87	2	1,94
6	1,55	3	8,76
7	21	4	9,93
8	47	5	9,70
9	—90	6	46
1880	1,75	7	14,85
1	3,65	8	17,37
2	4,85	9	4,35

*"The fear is thought to exist that under free conditions India's absorption of gold would diminish the chances open to other countries of obtaining gold to restore the value of their insufficiently backed paper issue. The amount of gold going to India would depend on the extent to which silver purchases by the Indian Government displace private imports of gold as a means of balancing Indian trade; a higher price limit would secure a larger supply of silver, thus diminishing the gold taken by India. It follows that the fear of undue gold absorption would, be *pro tanto*, met by the proposal to fix a high rate of exchange, which is recommended......below as a protection of the masses in India from the effect of high world prices arising out of the War. The volume of the currency would still be automatic, but the limits of the Government's control over the proportions of its constituent elements as between silver and gold would be extended, *pro tanto*, by fixing a higher rather than a lower limit to the Government's buying price of silver." (*Memorandum submitted to the Indian Currency Committee of 1920, by Mr. F. H. Lucas, Financial Secretary, India Office.*)

† Year ended March.

NET IMPORTS OF GOLD, 1855-56 TO 1937-38—(*Contd.*)

Year.*	Lakhs.	Year.*	Lakhs.
1910	21,68	1930	14,22
1	23,98	1	12,75
2	37,76	2	—57,98
3	34,00	3	—65,52
4	23,33	4	—57,05
5	7,65	5	—52,54
6	—1,11	6	—37,35
7	13,24	7	—27,85
8	25,18	8	—16,34
9	—5,56		
1920	35,33		
1	2,11		
2	—2,86		
3	41,19		
4	29,19		
5	73,93		
6	34,85		
7	19,40		
8	18,10		
9	21,20		

THE 18*d*. GOLD RATE

Exchange was fixed at 18*d*. gold in 1927. In the light of what has happened since then, it is not uninteresting to study the case for the 18*d*. gold rate as presented to the Indian Legislative Assembly by the Finance Member of the Government of India.

The Finance Member advanced 11 arguments in support of the 18*d*. gold rate, which are reproduced below:

(1) The Silver rupee has no natural value other than the value of the silver bullion which it contains. Any other value than this for the silver rupee must be artificial.

(2) No one ratio for the rupee can possibly be permanently more advantageous for India than another. The question is not and never can be whether one particular ratio, say, 1*s*. 6*d*., is permanently more advantageous for India than some other ratio, say 1*s*. 4*d*. or 2*s*.

(3) All arguments based on the belief that the fixation of one particular ratio is definitely and permanently advantageous or disadvantageous to this or that interest are entirely irrelevant.

* Year ended March.

(4) A rising rate of exchange tends temporarily to assist imports and discourage exports, but this tendency is often counteracted, in whole or in part, by movement in world prices, as happened in the case of India from 1922 to 1925.

(5) A falling rate of exchange has the opposite tendency. But this again is often counteracted by external causes affecting the level of prices.

(6) A fluctuating rate of exchange restricts the volume of trade and commerce and subjects both the producer and the consumer to losses without necessarily profiting the middleman who is often unwillingly made a speculator when he would prefer to do safe business.

(7) A stable exchange is what everyone wants and is to everybody's interests.

(8) In considering the fixing of the ratio at the present time, the first question must be " Is the time ripe for fixing the ratio "? The Currency Commission are unanimous in saying that it is.

(9) The only other relevant question is: " At, what ratio can stability of exchange be most easily and quickly secured "? The Commission are unanimous on this point also.

(10) The Commission are unanimous in saying that if prices have adjusted themselves in a preponderant degree to the ratio of 1*s.* 6*d.*, it is in the interests of India that the ratio should be fixed at 1*s.* 6*d.*

(11) If it is accepted that the time is ripe for stabilishing the rupee, the only point open to argument is whether prices have adjusted themselves in a preponderant degree to the 1*s.* 6*d.* ratio. This is a question of fact to be examined as such.

We may accept points (1), (6) and (7) without discussion. The gold value conferred on the rupee was wholly artificial, and, other things being equal, a stable exchange is better than an unstable exchange.

Sir Basil Blackett's explanation of points (2) and (3) is so interesting as to deserve reproduction.

" Nothing is gained by the Indian exporter or anyone else if he receives in payment for what he sells a larger number or rupees of less value instead of a smaller number or rupees of greater value, if the gold or commodity value of what he receives remains unaltered. This is exactly what happens, as the following analysis will show:

A sells produce with a world market or destined for export for 1,333 rupees with exchange at 1*s.* 6*d.* for which, if exchange were 1*s.* 4*d.*,

he would get Rs. 1,500. The contention is that he loses 167 rupees owing to exchange being at 1*s.* 6*d.*

But it is agreed by all that under a gold standard the only thing that matters is the gold value of the money which a man gets for what he sells and pays out for what he buys. It is important to remember that though for convenience we talk of stabilising at 1*s.* 6*d.* what we mean to do is to fix the gold value of the rupee at 8·4751 grains per rupee. The habit of talking of the rupee in relation to its sterling value is responsible for more than one fallacy in the Currency League's propaganda. The theory of a gold standard is that all money transactions take place either in gold or in legal tender notes or coins with a fixed gold value, and all prices are gold prices. Now, with the rupee at 1*s.* 6*d.*, the rupee has a value equal to 8½ grains of gold. With the rupee at 1*s.* 4*d.*, the rupee has a value of 7½ grains of gold. I ignore the decimal points for convenience. Now our friend A at present with the rupee at 1*s.* 6*d.*, receives 1,333 rupees, each worth 8½ grains of gold. With the rupee at 1*s.* 4*d.*, he receives 1,500 rupees each worth 7½ grains of gold. A simple sum in multiplication will show that in each case he receives rupees worth exactly the same amount in gold, *viz.*, approximately 11,300 grains of gold. If A desires to spend the whole of his rupees in buying gold, he gets exactly the same amount of gold whatever the exchange rate, since all values under a gold standard are gold values, determined, that is, by the value of gold, the rupees he receives in either case give him exactly the same power of purchasing commodities whatever the commodity he desires to purchase. (An Honourable Member: "Question"). It is easy enough to question arguments but it is difficult to question facts."

The Honourable Member who interrupted the Finance Member was evidently not satisfied with the explanation. Nor would any student of economics. The 'fact' mentioned by the Finance Member cannot be questioned. The gold value of 1,500 rupees, when exchange is 16*d.* gold, is equal to the gold value of 1,333 rupees when exchange is 18*d.* gold. In both cases the rupees received by the cultivator are worth approximately 11,300 grains of gold. If no further questions are asked, the cultivator is neither a gainer nor a loser by the fixation of exchange at the higher or the lower figure.

But when the cultivator receives 1,500 rupees (instead of 1,333 rupees) in exchange for his produce sold at 16*d.* gold, does he say to himself "The extra 167 rupees mean nothing to me,

for the gold value of Rs. 1,500 at 16*d.* is just equal to that of Rs. 1,333 at 18*d.*? Is the cultivator in the village interested in the gold value of the rupee?"

The extent to which the cultivator is a consumer of imported goods is so small as to be negligible. He consumes kerosine oil and, in some parts of the country, a little foreign salt. For the most part he dresses in Khaddar, the product of his village hand-loom. When he pays an instalment of debt to the mahajan or the co-operative credit society, again, he is concerned with the number of rupees, not their gold value.

The gold value of the rupee has little to do with the cost of production of crops. The main elements of cost, as we have seen, are Government dues and bullock labour. Bullocks are a home-grown commodity, whose price is reckoned in rupees. Government dues, similarly, are paid in rupees, which is also true of charges when paid in cash, for the winnowing or harvesting of crops. Finally the cultivator's implements are, in most cases, indigenous, not foreign.

It would appear that the cultivator is not concerned with the gold value of the rupee. What he wants is a sufficient number of rupees to meet his charges. If now he obtains in exchange for his produce Rs. 1,500 instead of Rs. 1,333, he is a clear gainer to the extent of Rs. 167. After paying Government dues and meeting other charges in connection with the raising of crops the cultivator would be left with more money in his pocket for his personal expenses.

The cultivator would certainly get the same amount of gold for his rupees, whatever the rate of exchange was, but it is emphatically not true that " all values under a gold standard are gold values ". Under a gold standard all values are not determined by the value of gold—only such values are determined by the value of gold as have some connection with exports and imports. Gold is different from other commodities. Owing to its great value in small bulk the cost of transportation of gold is small and under the influence of a world-wide demand, it moves quickly from one country to another. Other commodities move with more

difficulty. But in the present case we are concerned with commodities which do not move at all. Our plough-bullocks do not enter into international trade—there is no competition between them and British plough-bullocks. Our village menials, carpenters, shoemakers, and agricultural labourers do not enter into international trade either. It may be said that water-rates and the land revenue have a gold value in the sense that if the rate of exchange fell, the burden of the 'Home Charges' would increase, and heavier taxation would have to be imposed all round. But, conceivably, the situation may be met by reducing the Home Charges or economies in Government expenditure; conceivably more revenue may be got out of other sections of the population and the cultivator left alone.

The view that the level of exchange is a matter of indifference to the cultivator, since all values under a gold standard are gold values, is a deduction from the theory of purchasing power parity, but it is a deduction made blindly and in ignorance of the facts.

No one with any experience of Indian village life, or of the conditions under which the cultivator lives and works, would seriously maintain, as Sir Basil Blackett did, that more rupees, which a lower rate of exchange would give to the cultivator would mean nothing to the cultivator since their gold value would be the same as that of a smaller sum at a higher gold rate.

We may now consider points 4 and 5 according to which the artificial exchange stimulus to exports or imports is counteracted by 'movements in world prices'. It would be simpler and more to the point to consider adjustments in India to a rising or falling exchange.

If exchange is rising, it becomes cheaper to pay for imported goods, and imports increase, which may injure home industries. But in the long run, home manufacturers will increase their power of competition by reducing costs of production and introducing improvements in organisation. The weaker businesses will be eleminated; but those which survive will offer effective competition to imports. In the long run, then, when exchange becomes stable, the stimulus to imports ceases to operate.

In the beginning a rising exchange may restrict exports, but if home producers of food-stuffs and raw materials reduce their costs of production, the handicap imposed upon them will be temporary.

A falling exchange would restrict imports by making them dearer. The home manufacturer is benefited thereby, for he can charge higher prices for his goods, or undersell his foreign rivals. But this advantage will disappear when his wages and other elements of cost rise. Similarly, the exporter makes a gain when exchange is falling, for he receives a greater number of rupees for the same amount of produce exported. But in the long run his costs of production will rise. So long as the costs of production do not rise, the exporter makes a gain, but at the expense of other factors of production. Giving evidence on this point before the Fowler Committee on Indian Currency (1898) Dr. Marshall [1] insisted that it was incorrect to say that a falling exchange gave a bounty to employers and that any stimulus to exports relatively to imports which was not accompanied by lending to foreign countries, or returning loans, must necessarily lead to an equal reduction of exports relatively to imports.

When these adjustments are complete, and prices are stabilished at the new gold value of the currency "there is" as Sir Basil Blackett said, "and can be neither loss nor gain to the producer or the exporter or any one else."

When the gold value of the rupee rises, rupee prices will adjust themselves to world gold prices by falling, if the world gold prices are stable. If the gold value of the rupee is falling, the adjustment will take place through a rise of rupee prices, world gold prices remaining stable.

[1] "Now if any one says that the export trade of a country is conterminous with the under-takers of business enterprise, who are generally employers, and that anything that benefits the employers is a bounty to the export industry, then the proposition may be conceded. But, as I hold that the creditors who finance an industry that produces for export have some share in the export trade, and that the employees who make the thing for export have a very large share—quite as large a share as the undertaker—holding that I do not admit the proposition. If the statement is that a depreciating currency given a bounty to the employer who is producing for export, I admit it; only, I add, the bounty is just the same, and at the expense of just the same people, as that which he would get from a depreciating currency if he were producing for his home market, and not for export."

The Finance Member did not doubt that rupee prices had adjusted themselves to the 18*d.* gold rate. If, under such conditions, there was a turn to a lower rate, say 16*d.*, adjustment would mean a rise of rupee prices by 12½ per cent, a rise in the cost of living by the same amount, and a reduction in real wages by 11 per cent. "Does the House want to reduce by 11 per cent the real wages of all wage-earners, agricultural and industrial," asked Sir Basil Blackett, "of all clerks and shop-hands in private employ, of postal employees, railway employees, to reduce the value of every fixed income by 11 per cent?" The answer of the House was 'No.' The 18*d.* gold rate was duly placed on the Statute Book. Sir Basil Blackett himself looked forward to the future with hope and confidence.[2]

The influences which were expected to keep world prices steady ceased to work almost immediately and influences which were to lower prices began to make themselves felt. Businessmen and traders who were bidden by Sir Basil Blackett to look forward to normal conditions generally and expanding opportunities in every direction were soon to be overwhelmed by a crisis of extraordinary intensity and still more extraordinary persistence. It would seem that in spite of the *de facto* 18*d.* gold rate, Sir Charles Addis and Calcutta exchange bankers who supported him were right after all in thinking that it was open to question whether gold prices and conditions generally the world over had sufficiently settled down in 1927 to justify the stabilisation of rupee exchange.[3]

[2] "And what does the admission, that prices have adjusted themselves in a preponderant degree, mean? It means that there is no more reason to-day for disturbing the 1*s.* 6*d.* ratio than there was for disturbing the 1*s.* 4*d.* ratio in, say, 1907. It means that we have come to the end of a long struggle to restore equilibrium to currency and exchange and prices after the war upheaval. It means that the supply of currency has been brought into harmony with the demand at the existing level of prices and internal prices into harmony with each other and with world prices. It means that businessmen and traders of all kinds can go ahead, once the last remains of uncertainty are removed by placing 1*s.* 6*d.* on the Statute Book with confidence and hope to expand their activities, to launch out into new and promising ventures, without any fear of seeing all their bright hopes upset by the vagaries of exchange, and with a prospect of reasonably stable prices; also, knowing as they do that strong influences are at work to keep world prices steady at about the present level, they can look forward to normal conditions generally and expanding opportunities in every direction."

[3] In a pamphlet entitled "Indian Currency Reform", published in 1926 the present writer pointed out that the fall which had occurred in rupee prices from January to

In fact there had been no adjustment of Indian prices to the 18*d.* gold rate in 1925. The evidence on the basis of which the Currency Commission of 1925 concluded that adjustment was complete, was no evidence at all.

In a study of the price movement in relation to the exchange movement, it is always desirable to investigate the causes of the rise or fall in the prices of individual commodities. The rise or fall of prices is not always due to changes in the rate of exchange, and even if the price of a commodity falls at a time when exchange is rising, the amount of the fall in price being equal to that of the rise in exchange, the causes of the fall may be wholly unconnected with the rise in exchange. Hence the importance of the study of price fluctuations in the case of individual commodities.

A detailed study of the movements of Indian prices from 1861 to 1891 was made in connection with the Indian currency reform of 1893.[4] The subject also attracted the attention of a foreign writer, Dr. Paul Arndt, whose work *Die Kaufkraft der Rupie*[5] may still be read with interest. At the very outset Dr. Paul Arndt says:—

September 1925 was in sympathy with the fall in English and European gold prices and summarised his conclusions on the question of the 18*d.* gold rate thus:

"It would thus seem that, on the basis of the information that is available, it is impossible to dogmatise, as the Currency Commission have done, about the adjustment of Indian prices to the rate of exchange; and if the proposal to stabilise the rate of exchange at 1*s.* 6*d.* gold rests mainly on this supposed adjustment, it obviously rests on a very weak foundation" (p. 63).

The general conclusion was stated thus:

"No sensible man in India would insist that the Government should immediately proceed to inflate the currency with the definite object of raising prices in the country above the level of world prices, so as to reduce the exchange value of the rupee to 1*s.* 4*d.* But it is the greatest mistake to think that because 1*s.* 6*d.* is the prevailing rate, little difficulty will be experienced in maintaining exchange at that rate in the future. Let us gain some more experience of the 1*s.* 6*d.* exchange before permanently fixing the exchange value of the rupee at this rate.

"What I have said in the preceding Chapters must not be interpreted as an argument in favour of the immediate stabilization of exchange at 1*s.* 4*d.*; *but it is a strong argument for waiting*" (*italics of 1926*, p. 83).

4 *Papers relating to Changes in the Indian Currency System*, Simla, 1893 pp. 31-52.

5 Tuebingen, 1897. Verlag der H. Luapp'schen Buchhandlung.

"So far as the available material permits, I shall try to answer the question, whether the price level has risen within the 25 years in question (1870-95), *for each important commodity separately*; it will then become so much easier to recognise the causes to which, on the whole, the fluctuations in prices are to be ascribed" (italics Dr. Arndt's).[6]

Similarly, O'Conor, in his paper on prices, written in 1892, undertakes a detailed examination of the fluctuations in the prices of articles of import and export, and of wholesale as well as retail prices .

This is the only right and proper method of investigation in such a case. It is most remarkable that the Royal Currency Commission of 1925 should have recommended the stabilization of the rate of exchange at 1*s.* 6*d.*, mainly on the ground that Indian prices had become adjusted to the rate of exchange, without having considered whether in the case of the larger number of the more important commodities such adjustment had taken place. The Currency Report does not contain a single reference to the price of any article, whether of import or export.

The Currency Commission confined their examination to a study of index numbers of prices. For Indian prices they took the Calcutta series of index numbers as their guide; for 'world gold prices' they took an average of index numbers of the United Kingdom and the United States. Their examination showed that 'from Oct. 1924 to Sept. 1925 there was a rapid and violent downward movement of the rupee price level which was not the reflection of any similar movement in world prices' (para. 86). The conclusion appeared to them 'almost irresistible that the marked fall in rupee prices in the first half of 1925 represented largely the tendency of those prices to adjust themselves to the rise in exchange, the greater part of which had occurred in the preceding year' (para. 187).

There is no question about the fall in rupee prices. The Calcutta index number fell from 176 in Dec. 1924 to 158 in Sept. 1925. But did world gold prices remain stationary during this period?

[6] Pages 12-13.

The course of gold prices in the United States and in European countries in 1925 was not the same. While prices in the United States remained fairly steady, gold prices in Europe fell appreciably. An average of price index numbers of the Board of Trade and the Bureau of Labour (United States) is misleading. To obtain a general view of world gold prices we must study the movement of gold prices in the more important countries of the world.

The following table shows the index numbers of wholesale gold prices in 1925 in the United States and 14 countries of Europe:—

International Index Numbers of Wholesale Prices in Gold.

(1913-14=100).

The figures have been calculated in the case of each country with reference to pre-war prices; they are comparable only in regard to their movement.

YEAR 1925

	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	Oct.	Nov.	Dec.
Germany Stat. R. A. ..	138	137	134	131	132	134	135	132	126	124	121	122
Great Brt. Board of Tde.)	168	166	163	161	159	158	158	157	156	154	153	152
France (Stat. Gen.)	144	138	140	139	135	130	136	136	136	125	121	121
Belgium—(Min. d. L'Ind. et du Trav)	150	143	145	141	137	131	134	133	130	135	133	133
Netherlands—(Centr. Bur. v. d. Stat)	161	159	154	150	151	153	155	155	155	154	154	155
Denmark—(Finanstid) ..	156	152	151	150	151	156	163	156	147	146	148	145
Sweden—(Komm. Koll) ..	170	170	169	164	162	161	161	159	157	154	155	156
Norway—(Oek. Rev) ..	159	160	159	163	164	165	175	178	179	168	165	165

YEAR 1925—(*Contd.*)

	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	Oct.	Nov.	Dec.
Switzerland—(Lorenz) ..	171	170	166	163	162	162	161	160	159	157	157	155
Italy—(Bachi) ..	142	141	139	140	137	131	134	142	152	147	149	150
Spain—(Inst. Geogr. y Estadist) ..	140	141	142	141	144	141	141	137	138	139	137	137
Austria—(Stat. Nachr) ..	148	148	144	140	139	143	138	132	128	128	125	125
Czecho-Slovakia—(Stat. Staatsamt)	152	150	148	147	145	147	145	145	144	142	142	141
Poland (Offical)	120	121	122	119	118	119	120	107	110	109	104	88
United States of America—Bur. of Labour ..	160	161	161	156	155	157	160	160	160	158	158	156

Wirtschaft und Statistik, Berlin, (published by the Government Statistical Department), 1 February. Heft 1926. p. 84.

The index number of the United States for September was the same as that for January. But in 12 out of the 14 countries of Europe prices in September 1925 were lower than in January. The extent of the fall in different cases was as follows:—

Fall in Gold Prices in September 1925 as compared with January 1925:—

Germany	12 points
Great Britain	12 ,,
France	8 ,,
Belgium	20 ,,
Netherlands	6 ,,
Denmark	9 ,,
Sweden	13 ,,
Switzerland	12 ,,
Spain	2 ,,
Austria	20 ,,
Czecho-Slovakia	8 ,,
Poland	10 ,,

The index number of Norway in September shows a rise of 20 points, and of Italy 10 points. The average of the index numbers of the 14 countries of Europe fell from 151 in January to 145 in June and to 144 in September. In December prices in Europe were about 10 per cent below the level of prices in January.

The explanation of the fall in Europe of gold prices in 1925 is "increasing economic stagnation in most of the European countries"* in contrast to the favourable conjuncture in the United States. Prices had been rising in the year 1924, and the rise of prices was partly speculative. The fall of prices in 1925 was in some measure due to a reaction against inflated prices, and mainly to increased production. The revival of trade in the United States raised prices in the month of July in that country to the level of January, but "increasing depression"[7] in Europe continued to lower prices in the great majority of European countries.

It will have to be admitted that the downward movement of Indian prices was in sympathy with the world gold prices. In these circumstances all talk of adjustment of rupee prices to the 18*d.* gold rate was meaningless.

Rupee prices continued to fall in sympathy with world prices after 1925:

WHOLESALE PRICES (ANNUAL AVERAGES)

		India.	United Kingdom.	Holland.	U. S. A.
Pre-war	..	100(a)	100(b)	100(c)	70(d)
(1922)	..	176	159	160	97
(1925)	..	159	159	155	104
(1931)	..	96	104	97	73

(*a*) Calcutta series, July 1914=100 (*b*) Board of Trade, 1913=100; (*c*) 1913=100; (*d*) Bureau of Labour, 1926=100.

[7] *Wirtschaft und Statistik*, 1 February Heft 1936, pp. 84-85.

Since the rupee was linked to gold it is not surprising that Indian prices fell with prices in the United Kingdom, Holland and the United States. But the astonishing thing is that when we left the gold standard with the United Kingdom on Sept. 21, 1931, there was no rise of prices in India corresponding to the depreciation of the rupee in terms of gold. Prices did rise at first, but they fell again. From 91 in Sept. 1931, the Calcutta index number rose to 98 in December, but it fell to 94 in March 1932 and 86 in June of the same year. Prices rose in the next quarter, fell to 88 in December 1932 and were fairly steady in 1933 round 88. Throughout 1932 and 1933 the movement of rupee prices corresponded almost exactly with that of French gold prices. The French index number rose to 87 in March 1932, fell to 79 in December of that year and was fairly steady round 79 in 1933.

If one did not definitely know that India had abandoned the gold standard, the evidence of these index numbers would lead one to think that the rupee, throughout this period, was linked to the gold Franc.

Roughly the rupee had lost 30 per cent of its gold value. Rupee prices under the gold standard were in equilibrium with world gold prices and rupee prices, when the rupee had lost 30 per cent of its gold value were still in equilibrium with world gold prices!

One is forced to the conclusion that under the 18*d*. gold rate there was no adjustment of Indian to world prices. The return to the gold standard in 1927 with the 18*d*. rate was a mistake.

It is admitted that England's return to the gold standard in 1925 with £=4·86 dollars was a mistake. When the gold value of the £ rose internal costs and prices failed to adjust themselves to world costs and prices. Writing on 'Depreciation of the £ and movement of internal prices' in the *Wirtschaftsdient* for April 27, 1934, Dr. E. von Mickwitz said that already in 1926 there existed in many countries a considerable difference between world and internal prices, which increased in the following years. It was this difference which led to currency depreciation, which became a means of adjusting internal prices to the level of world market

prices without deflation. Dr. E. von Mickwitz regards England as a classical example of this. England abandoned the gold standard apparently under the pressure of withdrawal of loans by foreign countries, but her real obejct in going off gold was to bring about the adjustment of her costs and prices to world costs and prices.

Dr. Mickwitz divides the process of adjustment of paper to gold prices into three stages. In the first stage costs of production in depreciated paper rise in so far as it is necessary to import raw material from gold standard countries; other costs remain unaltered and there is a premium on exports from the paper standard country to gold standard countries. In the second stage internal prices begin to rise, though cost of living and wages do not. In the third or final stage wages go up, and the export premium disappears.

If prices go up while wages are stationary, the gain of the exporter is at the expense of the wage-earner. When all elements of cost are higher than before (including interest), the stimulus to export in the shape of currency depreciation will have exhausted itself.

The case of India presents a few peculiarities. As in the case of the United Kingdom our exports to gold standard countries are at present enjoying a premium. Our prices, as we have seen, have not risen. British exports are chiefly manufactured goods, and British costs of production are affected by the depreciation of the pound in so far as the raw material for British exporting industries has to be purchased from gold standard countries. Our exports consist of raw materials and food-stuffs whose cost of production is a rupee cost, which is not affected by the depreciation of the rupee in terms of gold. Then, as we have seen, hired labour is used to a very small extent in crop production in our country. Wages are a deduction from profits in British industries. In Indian agriculture, *wages are profits.* The rise of wages in England will be the cause of the disappearance of the export premium. But the rise of wages has no meaning in Indian agriculture. The danger to our export premium lies not in any rise of wages, but in a rise in the cost of bullock labour, or increase in Government dues. A

rise of prices will somewhat increase the cost of upkeep of bullocks, but Government dues are already high and a further rise may be avoided, when prices rise, by readjustments in taxation, or economies in Government expenditure. The rate of interest can be controlled.

Sterling Exchange Standard

We are at present under the sterling exchange standard. Sterling is the basis of our monetary system, and the continuance of this basis has been provisionally assumed in the Reserve Bank Act. When the international monetary position becomes more clear and stable, the question of a permanent basis for our monetary system will have to be considered. $17\frac{3}{4}d.$ [illegible]

The Reserve Bank Act provides for the buying and selling of sterling by the Reserve Bank, at $18\,{}^{3}|_{16}d.$ and $17\,{}^{49}|_{64}d.$ per rupee respectively. Until a permanent basis for the India monetary system has been found the $18d.$ sterling rate will be maintained.

The rupee has no fixed gold value at present. But since the rupee is linked to sterling, when England returns to the gold standard, our sterling rate will automatically acquire a fixed gold value.

In choosing the rate of stabilisation for sterling England will be guided by two chief considerations: interests of her exporting industries, and the interests of London as the world's financial centre.

In returning to her pre-War gold parity in 1925 England sacrificed the interests of her exporting industrise to considerations of financial prestige. This mistake is not likely to be repeated.

India is vitally interested in the devaluation of the £, but she will not be consulted when that momentous decision is taken. The gold value of the £ will be determined (quite naturally) in accordance with the requirements of British industry and finance.

It does not follow that devaluation which suits England must also suit India. Our financial responsibilities are not the same as those of England, and the conditions under which our exports compete in world markets are also different from those of British exports. The devalution of the rupee is a separate problem.

In currency matters we have been slavishly following England during the past 15 years, forgetting that the economic and financial position of India is not the same as that of England. In post-War years a policy of deflation was adopted in England with the deliberate object of raising the gold value of the £ to the pre-War parity. We followed the same policy, and succeeded in raising the gold value of the rupee 12½ per cent above the pre-War parity. England's excuse for desiring to return to the old parity was her position as the leading financial country of the world. No such considerations compelled us to raise the gold value of the rupee above its pre-War gold value. The whole of India protested against that mistaken policy, but the protest was ignored. Then, on September 21, 1931, England decided to go off the gold standard, and we waited till the same day to make the discovery that the rupee was over-valued at 18*d.* gold. The discovery would have been made much earlier if India had a currency policy of her own.

This is no Indian currency policy. And, if it can be called a policy at all, it does not inspire confidence.

The interests of the two countries are different and it is desirable that India should have a currency policy suited to her needs.

Take Australia as an example. She suspended the gold standard in December 1929, and some time later depreciated her currency 20 per cent below sterling (125 Australian £=100 £ British). We are not concerned with the exact amount of benefit that Australia has derived from this depreciation; the point is that Australia is free to adopt a currency policy which she conceives to be in her interests. Incidentally, even if Australia has failed to materially benefit by depreciating her currency below the sterling level, it would be difficult to show that she would have gained by maintaining its value 12½ per cent above the sterling level.

*The demand for the 16*d. *ratio.*

A deputation of the Indian Merchants' Chamber placed the view point of the Indian commercial community in regard to the

exchange rate before the Viceroy on January 23, 1939. In view of the demands put forward by eight autonomous provinces, the deputation urged the Government of India to fix the exchange ratio at 16*d*.

In a communique issued on December 16, 1938 the Government of India had already made it clear that they had "no intention of allowing a lowering of the present value of the rupee," and that they intended "to defend it by every means in their power." It was pointed out that the Reserve Bank's resources were ample for the purpose. Government felt that it was their clear duty to defend the ratio "in the interests of India generally and the cultivator in particular." The communique added: "In fact a lowering in the ratio would do no good to any body except the monied and speculative interests who profit from conditions of uncertainty and disturbance or who secure an additional but unseen all-round increase of 12½ per cent in the protection afforded to them at the expense of the consumers."

In replying to the deputation on January 23, the Viceroy repeated the declaration of Government policy in regard to exchange which had been made earlier. The Government were confident of their ability to maintain the 18*d*. ratio. Referring to the agricultural section of the population the Viceroy said:

"I am satisfied that there is no foundation for the suggestion that the maintenance of the ratio has been disadvantageous to the agriculturist. I am satisfied, indeed, that to lower the ratio in the market conditions, internaturally, of the present day would result in no rise that matters in what the cultivator can realise for his produce; that it would immediately and sharply increase the cost of what he buys; and that its effect on the budgetary position of the Centre and of the provinces could not but be of a character which would injuriously affect the tax-payer, whether urban or agricultural."

On the same day, on another occasion, the Viceroy referred to "the falling off in the demand for India's raw products" in consequence of the goal of self-sufficiency pursued many foreign countries, and urged that it was our duty, in the interests of the agricultural classes, to make a fuller use of these raw products ourselves."

The Punjab Government did not join the eight autonomous provinces which demanded the fixation of exchange at 16*d*. The reasons were thus stated by the Government:—

"(1) It is far from certain that the currencies of the world have been so stablised as to justify the proposed step.

"(2) Taking into consideration all the circumstances of the world market we are not convinced that the effect of the devaluation will be to stimulate exports and its effect in raising the prices of agricultural produce is problematical.

"(3) The immediate prejudicial results are certain, *viz.*:

"(*a*) The consumers will undoubtedly suffer from a rise in the price of imported goods (an increase in the price of imported cloth will be particularly hard on the Punjab).

"(*b*) Sterling liabilities will increase. Our estimated expenditure in England during the current year is £423,262. If the ratio is 18*d*., our liability would amount to Rs. 56,46,040. With 16*d*. ratio this liability will increase to Rs. 63,51,930, *i.e.*, an increase of Rs. 7,05,890. It will have a much greater effect on the Government of India with consequences prejudicial to provincial advances and will presumably involve an increase in Central taxation.

"(*c*) There will be much speculation in exchange with consequent harm to trade and industry."

Meaning of 'Devaluation.'

In the first place it may be noted that 'devaluation' in this connection does not mean permanent stabilisation of the rupee in relation to gold. Devaluation of a currency means reducing the value of the currency unit in terms of gold. For example, the United States reduced the fine gold contents of the dollar in January, 1934 by 41 per cent; the American gold dollar now contains 13·71 grains of pure gold instead of 23·22 grains. The 18*d*. gold rupee was equal to 8·475 grains of gold (a sovereign being equal to 113·00 grains of pure gold). The gold value of the 18*d*. sterling rupee is now about 4·82 grains. The gold value of the 16*d*. sterling rupee would be less in proportion, about 4·27 grains. But it is not suggested that the rupee should be immediately stablised in relation

to gold at the rate of 1 rupee=4·27 grains of pure gold. World political and economic conditions are not stable enough to justify devaluation of the rupee in this sense. But there is nothing in the prevailing instability, whether political or economic, to prevent us from lowering the sterling value of the rupee, if such a course is otherwise considered desirable or necessary. The rupee would, at 16*d*., remain linked to sterling, but at a lower ratio than the present. Its gold value would, as at present, continue to rise and fall with the rise and fall in the gold value of sterling. Later, when conditions are more normal, we may permanently fix the value of the rupee in terms of gold, at 4¼ grains of pure gold per rupee or more or less.

A lower ratio may have no effect upon the prices of agricultural produce, but it would mean more money in the pockets of our cultivators, and it will tend to stimulate exports, unless other countries raise their tariff walls against us, or otherwise limit their demand for our exports. It will be seen what action they take, if they take any action at all.

The Punjab would suffer a loss of 7 lakhs if exchange were lowered to 16*d*. This loss is insignificant as compared with the probable gain to our agriculturists.

The total value of exports of Indian merchandise (private) in 1937-38 was Rs. 181 crores. The share of the Punjab in these exports may well have been Rs. 15 crores. Let us put it at 12 crores. This sum, at 18*d*. per rupee is equal to £9,000,000. By selling goods abroad worth £9,000,000, the Punjab (including agriculturists, commission agents and others) earned Rs. 12 crores. Assuming that sterling prices remain unchanged, and that there is no falling off in exports, £9,000,000 worth of goods sold abroad, when the rate of exchange is 16*d*., would yield Rs. 13,50,00,000, an increase of Rs. 1,50,00,000. A great part of this increase would flow into the pockets of the cultivators, though it is impossible to say how much. In any case the gain of the Punjab cultivator would far exceed the loss of 7 lakhs to the Punjab Government on account of the increase in the burden their annual sterling liabilities.

A lower rate of exchange stimulates exports because it increases the value in the home currency of the price in foreign currency of the goods sold abroad. The exporter may share part of his gain with the foreign consumer. For example, assume that the price of a given quantity of cotton in Liverpool is £100, which is equal to Rs. 1,333 at 18*d.* sterling. At 16*d.* per rupee, the Indian exporter would receive Rs. 1,500, an increase of Rs. 167. He is now in a better position to meet foreign competition, for he can now afford to sell his cotton a little cheaper. If he sold the same quantity of cotton for £95, he would, at 16*d.* per rupee, receive Rs. 1,425. Of his gain of Rs. 167, he has sacrificed Rs. 75, but he is still better off than before, by Rs. 92. It is obvious that a lower rate of exchange would tend to stimulate exports, unless the foreign price fell so much as to absorb the whole of the gain from the lower rate of exchange, or the foreign demand declined heavily.

We have absolutely no reason to assume that as soon as we lower the exchange ratio, foreign countries would limit their demand for our exports, or that foreign prices would fall in consequence of the action we had taken. There is no ground whatever to assume that the 16*d.* ratio would bring down world prices of the raw materials and food-stuffs which we export. The 16*d.* ratio would make it easier for foreign countries to buy more from us, because it will make our exports cheaper in terms of their currencies. If they continue to buy the same amounts as they do now, we still gain. If they start buying less, it will be for other reasons, political or economic, (further development of Autarkie), which are unconnected with the Indian exchange rate.

The Consumer

The 16*d.* ratio will increase the cost of imports. It will impose heavier burdens on the consumer, but this consumer is not chiefly the cultivator. The agricultural sections of the population, whether in the Punjab or other parts of India, are consumers of imported goods to a very slight extent, as has been said before.

It is true that of the articles, which come into our villages from outside, cloth is the most important. But imports of

foreign cloth into India have steadily dwindled, and they are now of little importance. In the year 1937-38 the total imports of cotton piece-goods from all countries amounted to 591 million yards (3197 million yards in 1913-14). Indian mill production in 1937-38 amounted to 4084 million yards, or it was about 7 times greater than the volume of imports. Total consumption of cloth in India is estimated at 6000 million yards (including khaddar) of which imported cloth is about 10 per cent. It is difficult to understand how a fall in the rate of exchange would raise the price of cloth to the cultivator, or the Indian consumer generally. The price of cloth in India, at present, is not determined by the small quantity imported from abroad, but by Indian production. Considering the very small proportion of the Indian demand that the foreign manufacturer supplies, he cannot much raise his price. If he does, he would lose his market. Cloth imports, whether from Japan or the United Kingdom, are now not indispensable.

It may be concluded that, generally speaking, the burden of a lower rate of exchange, in so far as the consumer is concerned, will largely rest on classes which are well able to bear it.

THE HOME CHARGES

The effect of reversion to the 16*d.* ratio on public finances was considered by the Currency Commission of 1925. The Commission said:

"Some evidence has been put before us as to the effect which would be produced on the Government finances by a reversion to 1*s.* 4*d.* We do not regard this as a decisive factor; but we can not ignore the fact that a reversion to 1*s.* 4*d.* would inevitably lead to increases in both Central and Provincial taxation, and would probably also result in a postponement of further remissions of the Provincial contributions to Central revenues, and a set-back to the development of nation-building projects in the Provinces" (paragraph 207).

This argument is much stronger to-day than in 1925. The Currency Commission did not regard the increase in the burden of

sterling obligations as 'a decisive factor,' but it is a decisive factor to-day.

The contributions which the Provinces made to the Central Government in 1925 under the Meston Award have all been remitted. But the Government of India have sacrificed about ten crores of their revenue to make Provincial Autonomy a success. The increase in the burden of their sterling liabilities will, without additional taxation, make it impossible for them to find about ten crores annually for the Provinces. It is also certain that without financial assistance from the Centre, most of the Provincial Governments could not balance their budgets, or develop their nation-building programmes.

The Home Charges now amount to about £40,000,000 annually. At 18*d.* this sum is equal to Rs. 53·3 crores; at 16*d.* the annual cost of meeting sterling liabilities would be 60 crores—an increase in the burden of about 7 crores. Where is this additional sum to come from? Obviously the Government of India are unable to sacrifice a further 7 or 8 crores of their revenue.

The Home Charges are an ever-growing obligation. They have about doubled during the past twenty years. If they continue to increase in the coming years, the argument against reversion to a lower rate of exchange will become stronger still. In fact a future Finance Member of the Government of India may well argue that it was desirable to raise exchange to 2*s.* sterling,, for a higher rate of exchange will reduce the burden of the Home Charges.

The Government of India have an effective reply to the representation of Congress Governments in favour of the 16*d.* rate. The 16*d.* rate would mean no financial assistance to Congress or other provinces from the Centre. Can Congress Governments carry on without this assistance? If not, how can they ask for a lower rate of exchange?

Of course the gain to the country as a whole from a lower rate of exchange would much exceed the loss to public revenues assuming, as before, that prices and foreign demand for our exports remain unchanged. Suppose exports from India are valued 160

crores, equal to £120,000,000 sterling at 18*d*. At 16*d*. £120,000,000 would be equal to 183 crores, resulting in a gain of 23 crores. Conceivably the loss to public revenues may be made good by additional texation—that would still leave several crores in the pockets of the people. The gain of the people, conceivably, may be greater still if, as is probable, exports are stimulated by a lower exchange ratio.

This estimate of gain lays no claim to exactness; the figures are merely illustrative. But it is undeniable that the country as a whole would gain much more than what the public finances would lose.

It is necessary in the interests of India to reduce the Home Charges. Congress Governments, instead of demanding a lower rate of exchange, should insist on the appointment of a strong committee to examine the whole question of the growth of our sterling obligations, and to find ways and means of reducing them. Possibly the rate of interest can be reduced, if not the capital debt. Rapid Indianization of both the Civil and the Military services would effect considerable economies. It is obvious that until the Home Charges are reduced, the Government of India would pay no attention to the demand for reversion to 16*d*.

The Rupee Over-valued

The Government of India can urge the necessity of safeguarding public revenues as a good reason for not lowering exchange. Apart from this, they have no case at all. It is nonsense to say that the lowering of exchange "would do no good to anybody except the monied and speculative interests."

The plain fact is that at the present ratio the rupee is overvalued.

The rupee was overvalued when exchange was fixed at 18*d*. gold. The Government never admitted it; Government, even in 1931, before India abandoned the gold standard, repeatedly declared their firm intention to maintain the gold value of the rupee, and were confident of their ability to do so. But where is the

18*d.* gold rate? The sterling rate will be maintained at the cost of India until exchange breaks.

Overvaluation of the rupee means that the exchange value of the rupee in terms of foreign currencies is too high. Why? Because terms of international exchange have altered in recent years to India's disadvantage. Other countries have been able to reduce their costs of production, thanks to the development of scientific agriculture, and particularly to the use of power-driven machinery in agriculture. Under existing conditions it is not possible for us to modernize our agriculture. We cannot develop large-scale farming with power-driven appliances like other countries which compete with us in the world markets. This is a fact of fundamental importance in the discussion of the exchange question, but a fact which is consistently ignored by Government. If costs fall heavily in other countries, while our costs fall less heavily, our exports must suffer, and they have suffered. A lower rate of exchange would give the cultivator some relief. The overvaluation of the rupee expresses a very simple, incontestable fact—that agricultural costs in India have failed to adjust themselves to world costs and prices, and as we have seen, they can not.

Whenever a currency is overvalued, there are only two courses open to a country—either costs must be sufficiently reduced or exchange must be allowed to fall. Such has been the experience of other countries. France is a good example. Before the conclusion of the Tripartite Currency Agreement between England, France and the United States, in September 1936, the French Franc was quoted at about 75-77 to the £ sterling. The Franc was over-valued at this rate, that is, its value in terms of sterling was too high. It is easy to talk of reducing costs, but very difficult in practice to do so. France sought adjustment through a lower exchange value of the Franc. The rate chosen at first was 105 Francs to the £ sterling, but it was lowered again, and now one may buy 177 Francs for a £ sterling. The Franc stands lower to-day that it did before England went off the gold standard (124 Francs to the £).

Stability

In official and certain other circles very great importance is attached to a stable rupee. Some time ago India's leading financial paper, *Capital* wrote under the caption: "Stability the thing:" "An adequately valued rupee, stable within the limits imposed upon all good currencies, is India's constant requirement. Instability of the rupee has been a nightmare for generations of India's rulers. If the truth be known, the fact of one experimental reversion might easily lead to another—either up again or still further down, and that would be an ideal *milieu* for those speculators whom the Government communique [dated 16th December, 1938] so rightly names" (*Capital* December 22, 1938).

But if the rupee is over-valued, its value should be readjusted. We cannot sacrifice every thing at the altar of stability. The 16*d.* ratio is nothing new. Secondly, is the rupee stable now? Its gold value flucturates daily. Thirdly, in spite of Government declarations, who can say with certainty that Government, in the coming years, would be able to maintain exchange at the present rate, considering the declining foreign demand for India's exports? There is doubt an uncertainty about exchange. Gold exports are dwindling, and unless foreign demand for our exports miraculously revived the present rate could be maintained only by adding to India's sterling debt and the dissipation of reserves. It would be better to end doubt and uncertainty by lowering exchange. Speculators will be active temporarily, but once exchange has been stabialised at 16*d.*, normal conditions would be restored. In the changed conditions of world trade real stability at 16*d.* may be easier to maintain than supurious stability at 18*d.*

Summary

The case for reversion to 16*d.* may be thus summarised:—

1. The rupee is over-valued, the terms of foreign trade having altered to India's disadvantage.

2. This result is largely due to biological and mechanical progress affecting agriculture in other countries. Under the existing

system it is not possible for India to reduce agricultural costs by the development of large-scale farming with power-driven appliances.

3. India's disadvantage is of a permanent character. Hence the necessity of a lower rate of exchange, which would give some relief to the cultivator.

4. The 16*d*. ratio would mean more money in the pockets of the cultivator. He would be affected only to a very slight extent by the rise in the price of imported goods, since he is not largely a consumer of imported goods.

5. Attempt should be made to reduce the Home Charges, so that reversion to 16*d*. does not add much to their burden.

(The principal items of the Home Charges are the following:—

		£ millions.
Interest on Railway Debt		9·0
Interest on other debt		7·0
Civil Administration		1·8
Miscellaneous (Territorial and Political Pensions, Superannuation allowances and Pensions, Stationery and Printing, etc.) ..		3·0
Army—		
Effective	5·2	
Non-effective	3·7	
Marine and other charges ..	0·2	
Total Army	——	9·1

This account for £30 millions. But the Home Charges at present have reached a total of over £39 millions. The details are not yet available.

The Home Charges are in some measure responsible for the 'Safeguards' in the new Constitution. They are the main reason for the maintenance of exchange at a high level, when, for other reasons, a lower rate of exchange would be more desirable.

Whether it is good for a country to have heavy external obligations in the shape of our 'Home Charges' is a question best left to the reader's judgment).

CHAPTER XVIII

BANKING

The Indian money market consists of indigenous as well as foreign elements. The village money-lender, the private banker in towns and shroffs in the Presidency towns form the foundation of the Indian credit system. On this foundation there has been erected a superstructure of credit, a banking organisation, such as exists in a much more developed and complicated form in the West. Both the elements, Indian and foreign, perform useful functions, but the indigenous banker plays the more important part in providing the agriculturist and the craftsman with the credit which they need, and also in the financing of the internal trade of the country.

Before the constitution of the Reserve Bank, the Imperial Bank of India did duty as a kind of Central bank. The Imperial Bank was founded in 1921 by amalgamating the three Presidency banks of Calcutta, Bombay and Madras. The Imperial Bank is not a State bank, but its connection with the Government of India was a close one.

The Imperial Bank kept the whole of Government balances on which it did not pay any interest. Before the foundation of the Imperial Bank Government used to keep a substantial portion of its balances in Reserve Treasuries at Calcutta, Bombay and Madras. This Independent Treasury System was held to be in the main responsible for the stringency of money in the busy season, but its abolition did not give much relief to the money market. By the terms of its Charter the Imperial Bank is allowed to draw, accept, discount, buy and sell bills of exchange and other negotiable instruments in India and Ceylon only. The Bank is also prevented from making any loan or advance for a longer period than six months, and except on the security of two names.

The establishment of the Reserve Bank alters the position of the Imperial Bank and its relations with the Government.

An agreement has been concluded between the Reserve Bank and the Imperial Bank. By this agreement, the Imperial Bank shall be the sole agent of the Reserve Bank at all places in British India where there is a branch of the Imperial Bank which was in existence at the commencement of the Reserve Bank of India Act (1st April, 1935), and there is no branch of the Banking Department of the Reserve Bank. The Imperial Bank will receive a commission from the Reserve Bank for performing at these places, on behalf of the Reserve Bank, the functions which it was performing on behalf of the Governor-General in Council before 1st April, 1935. Finally, for maintaining branches not less in number than those existing before 1st April, 1935, the Imperial Bank will receive from the Reserve Bank a payment of 9 lakhs per annum during the first five years of the agreement, 6 lakhs per annum during the next five years, and 4 lakhs per annum during the next five years.

The agreement shall remain in force for 15 years, and thereafter until terminated after five years' notice on either side.

The main business of the Exchange banks is to finance India's import and export trade. They viewed the proposal to amalgamate the three Presidency Banks into the Imperial Bank of India with a certain amount of misgiving, as they thought that the new Bank might attack their monopoly, *i.e.*, the exchange business. In a speech delivered in April, 1920, the Chairman of the Chartered Bank of India (Exchange Bank) said that the Exchange banks were not hostile to the proposed amalgamation, 'always provided that the present intention of not competing with the Exchange banks in their ordinary business of exchange is fully and honourably adhered to." The Exchange banks have preserved their monopoly—the Imperial Bank is not allowed to compete with them in their special business and the Indian Joint-Stock banks, with only a few exceptions, have no foreign branches, and do not enjoy the same facilities as the Exchange banks for undertaking exchange business.

The Reserve Bank is authorised to purchase, sell and discount bills of exchange (including treasury bills) drawn in the United

Kingdom and maturing within 90 days from the date of purchase but ordinarily only through a scheduled bank.

The Exchange banks may be divided into two groups: banks doing a considerable portion of their business in India, and Banks which are merely agencies of large banking corporations doing business all over Asia. Their total number is 18. In addition to the exchange business they do ordinary banking business, and thus compete with the Imperial Bank and the Indian Joint-Stock banks. But they take very little part in the financing of the internal trade.

Our foreign trade is financed as follows. The Exchange banks in India collect on maturity the bills drawn on Indian importers for goods purchased by them. These bills are sent to the Exchange banks either direct by the foreign drawer or by a bank which has purchased the bill from the foreign drawer. The Exchange banks also supply knowledge to the foreign exporter about the financial position of the purchasing firms in India.

With the proceeds of the import bills received by them for collection and the deposits they obtain, the Exchange banks purchase the exporters' bills offered to them. But the balance of trade in merchandise is generally in India's favour. The funds that the Exchange banks have in India are generally insufficient for purchasing the exporters' bills, and they have to supplement their resources in other ways. Till recently the Exchange banks did so by purchasing the Secretary of State's Council bills; at present they add to their funds by selling sterling to Government. They also import sovereigns, and gold and silver bullion.

The village Mahajan, Mahajans in towns and shroffs in the Presidency towns, the Joint-Stock banks, and the Imperial Bank all take a share in the financing of the internal trade. The importance of the part played by the Mahajan in the moving of crops from the village to the local market called the *mandi*, and from local markets to large towns and the ports cannot be exaggerated. He finances (*a*) agricultural operations, which is financing industry and (*b*) trade, which is a commercial function. The village Mahajan, who is the centre of the whole system, as the Indian village is the centre of Indian economic life, is not only

a money-lender, but a dealer in grain and other goods. He possesses his own capital, but has also business connections with bigger Mahajans in the larger towns, who deal with Joint-Stock banks.

Hundis are used in the internal trade of India. The *hundi* is an internal bill of exchange. A considerable portion of the business of Indian banks consists in making advances against *hundis*. The shroffs in the Presidency towns purchase *hundis* on their own account, and have recourse to banks for discounting *hundis* only when they have exhausted their resources. They purchase *hundis* from smaller shroffs, and these from other shroffs in the smaller towns or villages.

Even before 1921 the connection between the Presidency Banks and up-country trade was very close, and the opening of 100 new branches, within five years, which was one of the conditions imposed upon the Imperial Bank when it was constituted in 1921, was meant to render this connection closer still. By the rates which the Imperial Bank charged on the discount of *hundis*, and the extent to which it showed itself willing to buy *hundis*, it materially affected the supply of credit in the money market in and outside the Presidency towns.

The connection between the rates of discount charged by shroffs and the official *hundi* rate of the Imperial Bank was not always a close one. Sometimes in the busy season the shroff's rate was higher than the Bank rate; in the slack season, the shroff's rate was lower than the Bank rate. The undercutting of the Bank by the private banker is possible because he has considerable financial resources of his own, which are employed exclusively in financing the internal trade of the country. When the Imperial Bank found that it was getting very little business in *hundis*, and much of its cash was lying idle, it lowered its *hundi* rate. On the other hand, when it was very hard pressed for money, it refused to buy new *hundis*.

The growth of Indian Joint-Stock banks has been rapid. In 1870 the number of reporting banks was 2, with capital and reserve of $11\frac{1}{2}$ lakhs and deposits amounting to about 14 lakhs. In 1900

the reporting banks had capital and reserve of 1¼ crores and deposits amounting to 8 crores. Thirteen years later the number of banks increased to 18, capital and reserve to about 2-1/3 crores and deposits to over 22½ crores. The progress of the Joint-Stock banks in more recent years is shown by the following table:

INDIAN JOINT-STOCK BANKS (WITH CAPITAL AND RESERVE OF Rs.5 LAKHS AND OVER). POSITION ON 31ST DECEMBER OF EACH YEAR

	1913.	1920.	1927	1932.	1935.
Reporting banks, No. ..	18	25	29	34	38
Paid-up capital. Crores ..	2·3	8·4	6·9	7·8	8·2
Reserve and rest ,, ..	1·3	2·5	4·2	4·4	5·0
TOTAL ,, ..	3·6	10·9	11·1	12·2	13·2
Deposits ,, ..	22·6	71·1	60·8	72·3	84·4
Cash balances ,, ..	4·0	16·3	7·7	9·8	19·1

The following table shows the proportion per cent of cash to liabilities on deposits of the several classes of banks on 31st December of each year:—

	Imperial Bank (1).	EXCHANGE BANKS (2).		INDIAN JOINT-STOCK BANKS (3).	
		Class A.	Class B.	ClassA.	Class B.
1913	36	19	17	18	16
4	46	28	26	21	22
5	34	19	41	22	22
6	35	25	60	25	21
7	45	40	60	25	21
8	29	20	44	23	24
9	31	35	67	21	24
1920	30	30	58	23	18
1925	21	13	15	19	20
1932	28	12	15	13	17
1935	25	15	19	23	16

(1) Before 1921 Presidency Banks.

(2) Exchange banks of Class A are those doing a considerable portion of their business in India; Class B are banks which

are merely agencies of large banking corporations doing a major portion of their business abroad.

(3) Indian Joint-Stock banks of Class A are those having a capital and reserve of 5 lakhs and over; Class B have capital and reserve between Re. 1 lakh and Rs. 5 lakhs.

The percentage of cash to deposits used to be unduly low. Attention was drawn to it by J. M. Keynes before the War, and he predicted trouble. The crisis in banking which occurred in 1913 was very severe. (Between 1913 and 1917 no less than 87 banks failed with a paid-up capital of 1¾ crores.) The largest number of failures occurred in 1914 (42 banks with a paid-up capital of over 1 crore).

The crisis was due to lack of experience and mismanagement, and partly to the attempt to finance industries with short term deposits. As is seen from the table given above the proportion of cash to liabilities on deposits in the case of the larger Joint-Stock banks rose substantially in 1935 (15 per cent in 1933 and 1934). This is due to the establishment of the Reserve Bank.

In spite of the rapid growth of banking, considering the size and population of the country, banking facilities can only be described as very inadequate. The official annual publication known as "*Statement Exhibiting* the *Moral and Material Progress and Condition of India*" for the year 1924-25 thus commented on banking conditions in the country.

"That the number of banks at present in India is inadequate for her needs, is clear from the fact that there are at present only 100 head offices with between 300 or 400 branch banks throughout the whole country. In some 20 per cent of the towns, possessing a population of more than 50,000 inhabitants, there are no banks at all; while in the case of towns with a population of 10,000 and over, the proportion without banking facilities rises to 75 per cent."

The position in 1932 was as shown below:—

THE NUMBER OF HEAD OFFICES AND BRANCHES OF BANKS, INCLUDING AGENCIES IN INDIA

	Head Office.	Branches.
Imperial Bank	3	161
Exchange Banks	..	83
Indian Joint-Stock Banks	171	551

According to the list given in *Statistical Tables relating to Banks in India* (1932), the number of towns enjoying banking facilities is 400. India has 914 towns with a population of over 10,000, and 987 towns with a population of 5,000 to 10,000.

The use of cheques is increasing rapidly. Cheques cleared from clearing houses amounted to 650 crores in 1913 and 1577 crores in 1932. The effect of the trade depression on banking operations is shown by the fall in the amount of cheques cleared between 1929 and 1931:

	Cheques cleared from clearing Houses—Crores.
1929	20,38
1930	18,04
1931	15,62
1932	15,77

Capital's index of cheque clearance fell to 85·5 in 1932-33 (1935 base), but gradually rose thereafter to 102·1 in 1936-37. It fell again to 101·5 in 1937-38.

Indian joint-stock banking is making satisfactory progress, but Directors of Indian banks have still to learn that banks exist primarily to assist agriculture, trade and industry, and not to finance the Directors and their concerns.

A Central Bank for India

A Bill to establish a central bank in India, called the Reserve Bank, was introduced in the Legislative Assembly in January, 1927. It was described by Sir Basil Blackett as "one of the greatest measures of financial liberalism ever brought forward by the Government of India."

The establishment of a Central Bank in India was recommended by the Currency Commission of 1925. They pointed out the inherent weaknesses of a system in which the control of currency and credit was in the hands of two distinct authorities, the credit situation being controlled by the Imperial Bank of India and the currency situation by the Government. The currency and banking reserves of the country were also separately managed. The unification of the control of currency and credit could only be brought about by the creation of a central bank enjoying the sole right of note-issue, and independent of the State. The Currency Commission recommended that the central bank should be a shareholders' bank, with a fully paid-up capital of Rs. 5 crores. In making their recommendations regarding the management of the central bank they kept in view the Resolutions passed both by the International Financial Conference of Brussels (1920) and that of Genoa (1922) to the effect that "Banks, and especially Banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance." The Central Board was to be composed of 14 members, of whom 9 were to be elected by shareholders, a maximum of 3 to be nominated by the Governor-General in Council, in addition to a Managing Governor and a Deputy Managing Governor. The Government was also to be given the power of nominating an official member to the Board with the right and duty to attend and advise the Board, but not with the right to vote. It was thought that in the special circumstances of India, *i.e.*, the wide experience of Government in the management of the currency and the great importance of Government's banking and remittance business, it was desirable that Government should nominate a small minority of members on the Central Board. This constitution left the

Reserve Bank free from interference by the Executive in the day-to-day conduct of its business and in banking policy.

The Currency Commission distinctly laid it down that no person should be appointed President or Vice-President of a Local Board or should be recommended as a member of the Central Board, who is a member of the Governor General's Council, the Council of State, the Legislative Assembly, or of any of the Provincial Governments or Legislative Councils.

Differences arose in the Legislative Assembly on two points. In the first place the Assembly, by a majority, decided that the Central bank should be a State Bank; secondly, the Assembly insisted on the inclusion of representatives of Central and Provincial Legislatures in the Board of Directors.

(Indian opinion preferred a State bank, that is a bank with capital subscribed by the Government, in place of a bank with private share-capital. The advantages of a share-holders' bank are recognised: the board of management is elected by the share-holders, and this provides a ready-made constituency for the selection of a representative directorate; further, members of the board have themselves contributed to the capital of the bank, and they are accountable to the share-holders for money which they have contributed. Such a bank may also be completely independent of the State. But the fear of non-officials was that in the special circumstances of India, a Central Bank directed by a body responsible only to a number of private share-holders, would tend to be controlled by vested interests, and that its utility to the public might even be endangered by a conflict of interests within the management of the Bank between Indian and external capital.)

As the differences between the official and non-official points of view proved irreconcilable, Government announced on 8th September, 1927, that they did not intend to proceed with the Bill. Later, on February 6, 1928, discussion on the Bill was resumed, but the rejection by the Assembly of Clause VIII, relating to the constitution of the Board of Directors, ended the discussion.

A new Act constituting the Reserve Bank of India received the assent of the Governor-General on 6th March, 1934. The

object is " to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage." The Act leaves the question of the monetary standard best suited to India to be settled later; it only makes " temporary provision on the basis of the existing monetary system."

CONSTITUTION

The Reserve Bank is a share-holders' bank. The share capital of the Bank is 5 crores, divided into fully paid-up shares of Rs. 100 each. The nominal value of the shares originally assigned to the various Registers is as follows: Bombay 140 lakhs, Calcutta 145 lakhs, Delhi 115 lakhs, Madras 70 lakhs, and Rangoon 30 lakhs. British subjects ordinarily resident in India but domiciled in the United Kingdom or in the British Dominions, and companies incorporated in the United Kingdom or the British Dominions having a branch in British India, may become share-holders of the Reserve Bank, provided the Dominion concerned does not discriminate in any way against Indians.

The Central Board consists of a Governor and two Deputy Governors appointed by the Governor-General in Council, 4 Directors nominated by the Governor-General in Council, 8 Directors elected on behalf of the share-holders on the various Registers, and one Government official nominated by the Governor-General in Council. In each of the five areas there is a Local Board consisting of 5 members elected from amongst themselves by the share-holders on the register for that area and 3 members nominated by the Central Board from amongst the same share-holders.*

* Excepting the Goveronr, Deputy Governor or the Driector nominated by the Governor-General in Council, no person may be a Director or a member of a Local Board who is a salaried Government official or a salaried official of a State in India, is an officer or employee of any bank, or is a Director of any bank other than a bank which is a society registered under the Co-operative Societies Act of 1912.

THE BUSINESS WHICH THE BANK MAY TRANSACT

[The Bank may purchase, sell and rediscount bills of exchange and promissory notes (a) drawn and payable in India maturing within 90 days and arising out of *bona fide* commercial or trade transactions, (b) drawn and payable in India, maturing within 9 months, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and (c) drawn and payable in India, issued or drawn for the purpose of holding or trading in securities of the Government of India, or a Local Government, or specified securities of States. In each case one of the signatures on the bill must be that of a scheduled bank.]

The Bank may make to States in India, local authorities and provincial co-operative banks loans and advances against specified securities, which include promissory notes of any scheduled bank, or a provincial co-operative bank, supported by documents of title to goods which have been pledged to any such bank as security for a cash credit or overdraft granted for *bona fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations, or the marketing of crops.

The Bank may purchase and sell Government securities of the United Kingdom maturing within 10 years from the date of purchase, and the securities of the Government of India or of a Local Government of any maturity. The amount of such securities held at any time in the Banking Department will be governed by definite rules.

The Bank will act as agent for the Secretary of State in Council, the Governor-General in Council, or any Local Government or Local authority or State in India, in the transaction of financial business, which has been defined. In addition, it will receive money from them on deposit (without interest) and also from banks and any other persons.

BUSINESS WHICH THE BANK MAY NOT TRANSACT

[The Bank may not (1) engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking,

(2) purchase its own shares or the shares of any other bank or company or grant loans upon the security of any such shares, (3) advance money on mortgage of immovable property, (4) make unsecured loans or advances, (5) draw or accept bills payable otherwise than on demand, and (6) allow interest on deposits or current accounts.]

Central Banking Functions

The Government of India and Local Governments will entrust the Bank with all their money, remittance, exchange and banking transactions in India and, in particular, shall deposit, free of interest all their cash balances with the Bank.

The Bank has been entrusted with the management of the public debt and with the issue of new loans.

The Bank has taken over the note-issue from the Government of India and has the sole right to issue notes.

As in the case of the Bank of England, the Issue Department of the Bank is separate and wholly distinct from the Banking Department. The notes are a liability of the Issue Department alone. The notes issued (lowest denomination Rs. 5) are legal tender.

Of the total amount of assets of the Issue Department, 40 per cent shall consist of gold coin, gold bullion or sterling securities. The remainder of the assets (60 per cent) shall be held in rupee coin, Government of India rupee securities of any maturity, and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the Bank. But the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or 50 crores of rupees, whichever amount is greater, or, with the previous sanction of the Governor-General, such amount plus a sum of ten crores of rupees.

Of the assets in the form of gold or gold coin, 85 per cent shall be held in British India.

The reserve requirements may be suspended (for periods not exceeding 30 days in the first instance, which may be extended by

15 days) on the payment of a tax by the Bank upon the amount by which the holding of gold coin, gold bullion and sterling securities is reduced below the prescribed minimum. The tax shall be payable at the bank rate for the time being in force with an addition of one per cent per annum when such holding exceeds 32½ per cent of the total amount of the assets, and of a further 1½ per cent per annum in respect of every further decrease of 2½ per cent or part of such decrease.

RELATIONS WITH OTHER BANKS

The expression "Scheduled banks" has been used above. These are banks mentioned in a schedule attached to the Reserve Bank Act. The number of the banks is 50 (or 49 now, the People's Bank of Northern India having gone into liquidation). Seventeen out of the 50 scheduled banks are foreign.

Every scheduled bank shall maintain with the Reserve Bank a balance the amount of which shall not at the close of business on any day be less than 5 per cent of the demand liabilities and 2 per cent of the time liabilities of such bank in India. (The liabilities in this connection shall not include the paid-up capital or the reserve, or any credit balance in the profit and loss account of the bank, or the amount of any loan taken from the Reserve Bank.) Weekly returns shall be submitted by every scheduled bank to the Governor-General in Council and the Reserve Bank showing, among other things, its demand and time liabilities, its balance at the Reserve Bank, and the amount of advances made and of bills discounted by it. The Reserve Bank will also submit a weekly return of the Issue and of the Banking Department to the Governor-General in Council.

It is thought that the percentages for minimum reserve balances are somewhat high for India, but they are lower than the percentages recommended by the Currency Commission, 10 and 3 per cent respectively for demand and time liabilities.

To make the control of credit by the Reserve Bank effective it was essential that the requirements regarding the maintenance of the minimum reserve balance with the Reserve Bank should apply

to as large a number of banks as possible, and in this respect Schedule I is satisfactory.

As a compensation for the obligation imposed upon scheduled banks to maintain compulsory deposits free of interest in the Reserve Bank, the facilities which the Reserve Bank provides in the way of re-discount of bills of exchange and promissory notes will be restricted to the scheduled banks.

The Bank will ordinarily only re-discount bills of exchange and promissory notes, but the power of direct discount, or open market operations, has not been withheld from it. However, to prevent indiscriminate competition with the commercial banks, it has been provided that this power shall be exercised only when, in the opinion of the Board, such action is necessary or expedient in the interests of Indian trade or commerce.

Question of Elasticity

There was a provision in the old Paper Currency Act for the issue of emergency currency against internal bills of exchange or *hundis*. This device imparted a certain measure of elasticity to the currency system. Its working however, was not unattended with difficulties, and in 1924, in spite of the loan of Rs. 12 crores to the Imperial Bank under the provision mentioned above, the Government had to assist the market by expanding the note-issue to the extent of a further Rs. 12 crores against British Treasury bills, earmarked to the Paper Currency Reserve in London. The chief difficulty in connection with the issue of emergency currency against commercial bills is that the internal trade of India is, for the most part, financed by a system of cash credits, and the Imperial Bank has found it difficult to secure an adequate volume of bills as cover against the seasonal increase, with the result that the Government have been compelled to meet the demand for additional currency by regulating their holding of sterling securities in the Paper Currency Reserve. On more than one occasion the Imperial Bank has had to put pressure on its clients to convert cash credits into *hundis* in order that it might have self-liquidating *hundis* to put up as a cover against the loan from the Paper Currency Reserve.

These *hundis* or bills, although they represented a real demand for finance for trade, did not represent any definite goods or commodities, being in fact manufactured bills substituted for cash credits.

The provisions of the new Reserve Bank Act, relating to the issue of emergency currency, have been so framed as to meet these difficulties.

In the first place, the Bank is authorised to transact the purchase, sale and re-discount of internal bills of exchange and promissory notes drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops. These bills or promissory notes (as we have seen) must bear two or more good signatures, one of which shall be that of a scheduled bank or a provincial co-operative bank, and they must mature within nine months from the date of purchase or re-discount.

In the second place, in view of the prevalent system of financing the internal trade by cash credits and the difficulty of securing an adequate volume of *hundis* for the purpose, the Bank would be authorised to make loans and advances repayable on demand, or within 90 days, against the security of promissory notes of any scheduled bank or a provincial co-operative bank on certain conditions. Secured propert

Finally elasticity is imparted to the whole system by the provisions of the Act relating to the suspension of the reserve requirements. Rediscount

SCARCITY OF BILLS

Indian Joint-Stock Banks hold comparatively a small amount of bills. As compared with their holding of bills, their investments (mostly in Government securities) are large. The Central Banking Enquiry Committee found that six Indian Joint-Stock Banks in 1928 held bills of 1,23 lakhs, while their 'Investments' amounted to 20 crores. The explanation partly lies in the attractive yield of Government securities. Further, (a) Government securities are more helpful in maintaining a liquid position, or obtaining cash, than bills held by joint-stock banks; (b) rediscounting of bills is not w

too many bills discoun
meant diffic

considered a sign of weakness; (c) the Imperial Bank may not approve of the bills submitted for rediscount—it is prepared to discount only approved bills, or bills approved by it; and (d) the Imperial Bank is itself a competing commercial bank and other banks do not wish it to know all about their bill-holding. The last objection would not apply to the Reserve Bank.

To facilitate the use of bills the Central Banking Enquiry Committee, suggested (1) a lowering of the stamp duty on bills, (2) the stocking for sale by Post Offices of bill forms printed in English and the vernacular, (3) validating of the noting of dishonour and protest by recognized associations of banks, shroffs or merchants, and (4) standardization of customs governing the *hundis*.*

Of special interest is the Agricultural Credit Department of the Reserve Bank. The functions of this Department are (1) to maintain an expert staff to study all questions of agricultural credit, and (2) to co-ordinate the operations of the Reserve Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks or organisations engaged in the business of agricultural credit.

The Reserve Bank and Exchange

From the 1st of April, 1935 the Reserve Bank took over the duty of supplying the Secretary of State with sterling for his London requirements. In 1935-37 the Bank consistently rejected tenders below 18⅛*d.* The exchange was strong and on account of the strength of exchange the Bank found no difficulty in effecting its large purchases of sterling at favourable rates. The average rate at which sterling was purchased by the Bank was 18.127*d.* in 1936-37 and 18.126*d.* in 1935-36 as compared with 18.086*d.* in 1934-35. The Reserve Bank Report says: "Throughout the period under review exchange remained firm at 18-3/32*d.* as against 18-1/16*d.* in 1934-35. Thus it was consistently above parity and rose to 18⅛*d.* in the busy season."

* *Sections 592-3 of the Report.*

There was a sharp fall in exchange in the middle of 1938, and on June 6 Telegraphic Transfers were quoted at Calcutta at 17¾*d*., the lower specie point.

The fall in exchange caused speculation in regard to the action to be taken by the Reserve Bank to maintain the 18*d*. sterling ratio.

Both the 'Economist' and the 'Statist' commented on the weakening of the rupee. The 'Economist' mentioned 'the adverse trade balance' as the foremost reason for the weakness of the rupee. The trade balance was not actually adverse but the amount of the favourable trade balance had decreased. This is a serious matter, considering India's debtor position. It is with surplus exports that we meet our obligations abroad.

The 'Economist' said: "Before long the Reserve Bank may be forced to carry out its statutory duty of holding the rupee." Is it the statutory duty of the Reserve Bank to hold the rupee? An inspired statement, which appeared in the *C. & M. Gazette* of May 1, sought to correct the 'mistaken impression' that it is the duty of the Reserve Bank to maintain the 18*d*. rate! "Inquiries in official circles show," wrote the Simla correspondent of the *C. & M. G.*, "that there is a mistaken impression in the country that there is an obligation on the part of the Government of India to maintain the legal exchange standard of the rupee at 1*s*. 6*d*. Since the establishment of the Reserve Bank of India, the only obligation imposed on this central banking institution is that, under section 40 of the Reserve Bank Act it should maintain its position by way of upholding the gold points of the rupee, *viz*., 1*s*. 5-49/64*d*. and 1*s*. 6-3/16d. That is to say, within these limits the Reserve Bank of India is under an obligation to accept tenders for sterling. Apart from this there is no other obligation laid upon the Government of India or the Reserve Bank, and the day-to-day exchange value of the rupee depends upon the operation of the well-known law of supply and demand, particularly on the basis of the cross movements of international trade."

This statement is untrue. The Reserve Bank is under obliga-

tion both to buy and sell sterling within the specie points. Sec. 40 of the Reserve Bank Act is quoted below:

"The Bank shall sell to any person, who makes a demand in that behalf, at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine-sixty-fourths of a peny for a rupee.

"Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds."

Section 41 (not 40) of the Reserve Bank Act is concerned with the purchase of sterling by the Reserve Bank 'at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee."

Thus section 40 definitely makes the Bank responsible for preventing exchange from falling below the lower specie point. It is a statutory obligation imposed upon the Bank, and that is what 'holding the rupee' means. And that is how a central bank maintains the legal rate of exchange. The day-to-day exchange value of a currency is determined by supply and demand for foreign remittance, but if the operation of the law of supply and demand tends to depress exchange below the lower specie point, the Central Bank must intervene. If, when exchange tended to fall below 1*s*. 5-49/64*d*., the Reserve Bank declined to sell Reverse bills at 1*s*. 5-49/64*d*. per rupee, it would fail to carry out its statutory obligation.

Industrial Banking

There is a close relation between banks and industries in European countries. In Germany, banks play an important part in providing the greater part of the initial capital of an industrial concern; subsequently this capital is offered to public for subscription, or is sold to clients of the banks, or to banking firms in relation with the banks. It is very common for several banks to join hands in providing the initial capital, and to pledge themselves together as a *Konsortium* to accept a certain portion of the issue. When

association

 — a system of industrial banking.

new capital is required by an old company, it arranges the transaction with the bank with which it is in permanent banking relations.

In India there are no industrial banks at all; the commercial banks do not provide finance for block capital (fixed assets or plant and buildings). The biggest Indian joint-stock bank, the Imperial Bank of India, cannot lend money to industries on account of the limitation of 6 months on the period of loans made by it, and the prohibition against lending on the security of industrial shares or immovable property. Other reasons for our failure to develop industrial banking were thus stated by the Central Banking Enquiry Committee:

1. Commercial banks usually insist on a full backing of tangible and easily realisable security and take no account of the personal credit and integrity of the borrowers.

2. Banks insist on maintaining a margin of about 30 per cent in regard to advances against stocks and even on a higher margin in regard to stocks in process of manufacture.

3. Banks do not possess technical knowledge necessary for valuing the assets of an industrial concern and for judging whether the concern is profitable and solvent.

4. It is difficult to finance long-term requirements with short-term deposits.

5. There are complaints against the Imperial Bank of racial discrimination in making loans. It is "generally believed that the Bank lends to European concerns more freely than to Indian concerns."[1]

6. The rates of interest charged to industries for loans and advances are high.

The Central Banking Enquiry Committee recommended the establishment in each Province of a Provincial Industrial Corporation with branches, if necessary, and working with capital initially or permanently supplied by the Provincial Government. The Industrial Corporation may also take long-term deposits from the general public (fixed for at least two years). Money thus

[1] *Ibid.*, p. 271.

acquired should not be lent for longer periods than the currency of the deposits. In cases where Government subscribes to the share capital or debenture capital of the Corporation, or guarantees the interest on the debentures of the Corporation, it should be represented on the Board of Directors of the Corporation.

The Committee also recommended the formation "when its need is established" of an All-India Corporation to co-ordinate the work of Provincial Corporations and to secure a direct connection with the large spending departments of the Central Government, Government policy in regard to stores, tariff, etc., and railway policy in regard to rates. But the Committee laid more emphasis on provincial industrial banks and felt that provincial banks would be better able to look after the provincial requirements of industries than an All-India bank "even though the latter might have provincial branches."[2]

The Managing Agency System

This system is of considerable importance in India for financing industries. Bombay owes much of its industrial development to it. In Bengal the system prevails in jute, cotton, coal and tea industries. In Ahmedabad the system is described as "an unqualified success."[3] In Bihar and Orissa the Managing Agents provide capital for coal-mining, iron and steel, electrical enterprises, lime factories, mica mines and sugar factories.

The system as it prevails in different provinces is not exactly the same. In Bombay the Managing Agents raise capital from their friends and others, attract private deposits and take loans and cash credits from banks. The Central Banking Enquiry Committee, while not approving of the system, admitted that Managing Agents "have rendered yeomen's service to industries:"[4] Loans from banks are obtained on the guarantee of the Managing Agents, but the guarantee is not required when advances are made against Government and other Trustee securities.

[2] *Ibid.*, p. 286.
[3] *Report of the Central Banking Enquiry Committee*, p. 276.
[4] *Ibid.*, p. 211.

The managing agents provide most of the capital of a company

In Calcutta the Managing Agents are generally the founders of the concerns they manage. They arrange for both block and working capital—they find the money themselves, or raise share-capital, or make arrangements with banks.

In Ahmedabad, when a cotton mill is founded, a small amount of capital (about 25 per cent) is raised by share-capital and the balance is found by deposits and funds supplied by the Managing Agents. The deposits are received by mills generally for a year. They are made by individuals and also mill companies. Ahmedabad mills receive practically no assistance from banks.

The Central Banking Enquiry Committee drew attention to the "many serious drawbacks" of the system: (1) Some Managing Agents trade and speculate, besides managing their concerns. When speculation goes wrong, their financial weakness reacts on their concerns. Banks withdraw loans and cash credits. A concern may be intrinsically sound, but may have to suffer for the sins of the Managing Agents. (2) A few cases were brought to the notice of the Committee in which the Managing Agents turned their loans to the mills into debentures, with the result that the mills passed into their hands, and the share-holders lost all their capital. (3) The system works satisfactorily when the industries are prosperous; when bad times come and the Managing Agents have to find more money, they are in many cases unable to do so.

The Committee suggested that industrial enterprise in India should be made less dependent on the Managing Agency system, and that direct friendly relations should be established between industrial companies and commercial banks.

External Capital

The following statement shows the number and paid-up capital of joint-stock companies working in India, which were registered in India or elsewhere:—

x. loans in which fixed rate of interest is available.

capitalist could easily compete with Indian goods in the Indian market. With protection being adopted they found it more difficult. Therefore foreign capital flowed into India

1934-35

	No.	Paid-up capital.
Regd. in British India and at work ..	9,148	291 crore rupees.
Regd. in Indian States and at work ..	693	13 ,, ,,
TOTAL ..	9,841	304 crore rupees.
Regd. outside India but working in British India	871	573 millions.
Regd. outside India but working in Indian States	46	13 ,,
TOTAL ..	917	586 millions.

In 1922-23 the number of foreign companies was 720, and the amount of their paid-up capital about £487 millions. As compared with 1922-23 there was a subsantal increase in the paid-up capital of foreign companies working in the whole of India in 1934-35. The adoption of a policy of protection has something to do with this.

The more important foreign companies working in British India are the following:

1934-35

	No.	Paid-up capital in £ millions.
Banking and Loan	29	94·2
Insurance	143	72·6
Navigation	20	42·6
Railways and Tramways	18	25·1
Trading and Manufacturing Companies ..	365	238·0
Tea	174	26·4
Mining and quarrying (other than coal and gold)	30	24·0
Jute Mills	5	2·8

External capital flow into India increased with

We cannot take about 1,000 crores as the total amount of foreign capital invested in India. The amount must be more than this as foreigners are not debarred from owing shares in rupee companies registered in British India, or establishing such companies. The interest of Indians in foreign companies is comparatively small.

These figures bring out the importance of the stake of the foreign investor in India. The justification for " safe-guards " is also apparent.

The question of " flow of capital into India from external sources " was considered by a Committee appointed in 1925. As the Committee pointed out, the solution of the problem lies in the development of India's own capital resources. Under the existing political and economic conditions foreign capital cannot be kept out. The present policy is to make no discrimination between Indian and foreign capital except when Government grants particular concessions to an industry; where definite pecuniary assistance, such as a bounty, is granted to any particular undertaking it is required (1) that reasonable facilities should be granted for the training of Indians and (2) in the case of a public company, that (*i*) it should be formed and registered under the Indian Companies Act of 1913, (*ii*) it should have a rupee capital, and (*iii*) a certain proportion of the Directors must be Indian.

These conditions seemed to the J. P. C. Committee " to have been conceived in a very reasonable spirit," and they did not think that any objection could be taken to them. But the Committee suggested a distinction between companies already engaged, at the date of the Act authorising a grant, in that branch of trade or industry which it is sought to encourage, and companies which engage in it subsequently. In the case of the latter the J. P. C. Committee recommended that it may be made a condition of elegibility for the grant that the Company should be incorporated by or under Indian law, that a proportion of the directors (not exceeding one half of the total number) shall be Indians, and that the Company shall give such reasonable facilities for the training of Indians as the Act may prescribe. In the case of other companies (*i.e.*, those engaged in the industry concerned at the

date of the Act authorising the bounty or subsidy), no such conditions should apply. Suppose an Act is passed granting bounties on the production of card-boards, or newsprint. According to the J. P. C. all existing companies in India, whether they were incorporated in India or the United Kingdom, whether their directors were Indian or non-Indian, and whether they gave reasonable facilities to Indians for training or rigidly excluded them from their works, are eligible to participate in the grant. This is the strict requirement of the principle of 'Reciprocity'.

CHAPTER XIX

AGRICULTURAL CREDIT

The establishment of agricultural banks was recommended by the Famine Commission of 1901. The small cultivator all over the country was financed by the Mahajan, who charged exorbitant rates of interest. Far from being a help to agriculture, the *sowcar* had become, as the Famine Commission pointed out, in some places, an incubus upon it.

Ever before the Famine Commission of 1901 reported, the subject of co-operation, as a means of providing finance to the small cultivator on reasonable terms, had attracted the attention of some Local Governments. The first step towards the investigation of the possibilities of establishing co-operative credit societies in India was taken in Madras. An indigenous institution called *Nidhis* existed in that Presidency, which were organised on co-operative lines, and had a paid-up capital of 75 lakhs, with some 36,000 members. The *Nidhis* were on the whole working successfully, and they suggested the establishment of co-operative credit societies in India. The Madras Government deputed one of their officers, Mr. (later Sir) Fred. Nicholson to make a study of co-operation, and in 1899 forwarded his monumental report on the subject to the Government of India. The Government of the United Provinces, similarly, had deputed Mr. Dupernex to make enquiries into the subject in relation to Indian conditions, and his book entitled "*Peoples' Banks for Northern India*" appeared about the same time.

The proposal was then referred in its more general form by the Government of India to Local Governments for preliminary consideration and suggestions. The opinions of Local Governments were considered in June, 1901, by a Committee under the chairmanship of the Finance Member, Sir Edward Law. The Committee reported favourably in 1903, and a draft Bill attached to their report. The proposals of the Committee were referred to Local

Governments for criticism, and when their replies had been received the Government of India took legislative action to create co-operative credit societies.

New legislation was necessary as the old Companies Act of 1882, with its numerous sections and elaborate provisions, was unsuited to the new type of societies intended to be established. Three things, chiefly, had to be done: (1) the new societies had to be excluded from the operation of the general law, and provisions framed adapted to their constitution and objects; (2) it was desirable to confer upon them special privileges and facilities; and (3) it was necessary to take precautions with the object of preventing speculators and capitalists from getting control of them.

The object of establishing co-operative societies was defined as "the encouragement of individual thrift and of mutual co-operation among the members, with a view to the utilisation of their combined credit, by the aid of their intimate knowledge of one another's needs and capacities, and of the pressure of local public opinion."

A two-fold classification of societies into urban and rural was adopted. In the case of both classes it was provided that the members must be small men; that they must be residents of the same neighbourhood; that new members shall be admitted by election only; that loans must be made only to members; and that money shall not be lent on mortgage. Further, the interest in a society held by a single member was limited, so as to prevent an individual from obtaining control of the society; and in order to prevent speculation, shares were made transferable only subject to certain restrictions. The Act passed in 1904 also provided a simple form of registration, and to deal with fraud, or bogus co-operative societies which might be established under the Act, power of compulsory dissolution, subject to appeal to the Local Government, was reserved.

Other features of the Act of 1904 were as follows: unlimited liability was insisted upon in the case of rural societies; it was laid down that profits were not to be directly divided among the members, and that any surplus that might accrue, should either be carried to a reserve fund or be applied to reducing the rate of interest upon

loans; the society was forbidden to borrow money without sanction; and pawn-broking was prohibited, but the society was allowed to receive agricultural produce as security, or in payment of a loan.

Limitation of libaility and the distribution of profits, subject to the creation of a sufficient reserve fund, were allowed in the case of urban societies.

The privilegés conferred upon the societies by the Act of 1904 were as follows: (1) shares and other interest of members in the capital of a society were exempted from attachment for private debts; (2) societies were relieved from the necessity of letters of administration or a succession certificate; (3) they were given a *lien* upon certain forms of property when created or acquired by means of a loan from them until the loan was repaid; and (4) an entry in the books of a society was made *prima facie* evidence in a suit to recover money due to it. The societies and their operations were also exempted from income-tex stamp-duties and registration fees, and finally provision was made for compulsory inspection and audit of the societies by a Government officer.

The operation of the Act was restricted to credit only. The chief object of the measure, as we have seen, was to relieve agricultural indebtedness.

The Act of 1904 was amended in 1912, and the amended Act is still in force throughout the country, except in Bombay and Burma, where it was replaced by local legislation in 1925 and 1927 respectively. The amendment of the Act of 1904 was necessary for the following reasons:

(1) The Act of 1904 did not apply to co-operative societies established for production, distribution or other objects, except the provision of credit. The establishment of credit societies had led to the founding of other classes of co-operative societies also, and it was desirable that the privileges extended by the Act to co-operative credit societies should be extended to these other societies.

(2) In the Act of 1904 societies were classified according as they were "urban" or "rural," and the liability of rural societies was unlimited. The distinction was found artificial, and in practice inconvenient. In the Act of 1912 societies were divided into those with limited and with unlimited

Cooperative Consumer's Society
marketing society
Cooperative farming
Cooperative fight against diseases.

liability, but the principle was retained that agricultural credit societies must, as a general rule, be with unlimited liability.

(3) The Act of 1904 did not contemplate that societies with unlimited liability should distribute profits. Such societies, however, had come into existence in several Provinces, and were doing useful work. It was proposed to legalise their existence and to permit an unlimited society, with the sanction of the Local Governement, to distribute profits.

(4) The Act of 1904 was framed to meet the requirements of primary credit societies only; it made no provision for the higher finance of the movement. Unions and central banks are co-operative credit societies the members of which are other co-operative credit societies which they finance. They had naturally come into existence soon after the initiation of the movement, and it was necessary to recognise their existence.

The Act of 1912 incorporated these features.

The early history of the co-operative movement in the Punjab is interesting.

A few societies, organised on the co-operative principle, existed in the Punjab before the Act of 1904 was passed. Mr. (later Sir Edward) Maclagan and Captain Crosthwaite founded three societies in the Multan district in 1898, but they were short-lived. The experiment in the Bhakkar sub-division of Mianwali was more successful. Five societies were founded here by Captain Crosthwaite in 1900, and they were working satisfactorily in 1904. The first report on the working of the co-operative societies in the Punjab deals with the period of 5 months, from 26th October, 1904, when Mr. Wilberforce took over charge as Registrar, to 31st March, 1905. Mr. Wilberforce visited various districts of the Province with the object of explaining to the people the principles of the new movement, to select the types of societies to be founded, and to found the societies. He found that the people knew nothing about co-operation. "The vast majority of the people," he says, "had not even heard of the Act, and I did not meet one who had read it. They had merely heard a rumour that Government was going to relieve their indebtedness." It had been decided that societies should be founded in 5 districts which were selected as specimen districts of each of the 5 Divisions of the Punjab. The districts selected were Karnal, Hoshiarpur, Montgomery, Mianwali and Rawalpindi. Rawalpindi and Montgomery had to be left out as the proposal to start co-operative societies there did not receive encouragement from the local officers.*

* The local officers concerned were rebuked for discouraging the movement. The "Remarks" on the first report on co-operation in the Punjab contain the following:

Prospects of success did not seem very bright in the Karnal district where 4 societies were founded. The societies, says Mr. Wilberforce, "are regarded as Government banks, and the experience of persons taking advances from Government has not always been happy, especially in Districts like Karnal, where the people have been accustomed for centuries to being plundered by petty Government officials. At Shamgarh two members have ventured to borrow small sums. Some of the depositors have also borrowed money to show that there is no danger of being plundered."†

The movement met with a certain amount of opposition on the part of the money-lenders. They spread a rumour that those joining a society would be sued at once on either a real or fictitious claim, and treated with the greatest severity allowed by law against judgment debtors.

The Tahsildars of the Karnal district were to assist Mr. Wilberforce in persuading the cultivators to start societies. An interesting example of how the Tahsildars interpreted their instructions, and of the methods of persuasion employed by them, may be given here. The Tahsildars thought that it was a Government order that societies should be started everywhere. The Tahsildar of Kaithal therefore called the zamindars and lambardars of Kaithal together and told them that the Registrar was arriving shortly, and that before his arrival they must apply for registration. The forms of application were then distributed "on which he ordered the amount of contribution (apparently by way of gift) of each applicant to be entered." However, in all only 5 applications were received. In one case Mr. Wilberforce registered a society, as the people, after understanding the scheme, approved of it. "In the other three cases the coerced contributors were practically all in debt, and naturally saw no advantage in borrowing Rs. 50 or Rs. 100 at 27 per cent from a money-lender to finance a society in which they took no interest and of which they had no knowledge."*

"As regards the districts of Rawalpindi and Montgomery, the Registrar seems not to have attempted operations because the Deputy Commissioners concerned discouraged him, and in view of their attitude, no other course was open to him. But His Honour is unable to approve of the action of these officers, who have practically vetoed the selection of districts made by Sir Charles Rivaz, and have pre-judged the experiment because they did not feel sanguine as to its success. Sir Denzil Ibbetson expects active assistance from his District Officers who, if they know their districts as they should do, will have little difficulty in selecting the most promising starting points. They may have their own private opinions about the probability of success, and no one can feel quite sure of the result. But the intention of Government is that this experiment shall have a fair trial, with all the advantages which the co-operation of its officers can give it, and the latter must regulate their conduct accordingly."

† Report for 1904-05, p. 2.

* *Report*, 1904-05, p. 3.

The movement promised more success in Hoshiarpur, where 3 societies were founded. Mr. Wilberforce found the people ready to listen to any scheme for their improvement. Unlike the people of Karnal they were full of enterprise. Another factor which was favourable to success was the existence of a large amount of capital which could be attracted by well-managed societies. This represented the money remitted and brought home from Australia, Africa and various parts of India.

The Una *tahsil* of this district furnished a brilliant example of spontaneous co-operative effort which deserves to be remembered in the history of co-operative credit in the Punjab. This is the Rajput society of Panjawar, a village of average size, situated on the inner slopes of the Siwaliks.

The society was formed in 1892. It was never fostered by the Government, and its existence was unknown for nearly 10 years. The founder of the society was Mian Hira Singh, the lambardar of the village. The cause of the formation of the society may be briefly explained. The undivided common land belonging to the village consisted of about 1,500 acres, of which about 900 acres of sandy, stony soil, which had been recently thrown up on the Panjawar side by the Sohan, was in danger of being washed away, and the rest was exposed to attack by *chos* (mountain torrents). Under the guidance of Hira Singh it was decided by the land-owners, 55 in number, who joined the society, to hand over the whole of the undivided land to an elected committee, which was to apply the income from the land (1) in managing and improving the common land, (2) in taking over the mortgages held by outsiders on behalf of the mortgagors, (3) in making ordinary advances, and generally for the improvement of the village.

The Registrar was able to report in 1905 that by taking appropriate measures (planting of grass and trees) the society had saved the land thrown up by the Sohan from danger, and arrested the attacks of *chos* to a great extent. In addition, the society had taken over all the land mortgaged to outsiders at a cost of over Rs. 10,000, and had lent about Rs. 3,000 on short loans at 6 per cent. In view of the success attained by the society the Registrar concluded that the Panjawar type of society was the best for villages

possessing undivided common land, and he endeavoured to start societies of this type in the Hoshiarpur district.

He sought to promote two other types—one which he called the "money-deposit type," and the other the "Mianwali type." The money-deposit type had no share capital, but operated with fixed deposits (bearing interest), obtained as far as possible entirely from members, and made advances to members at a higher rate of interest than that allowed to depositors. This type of society was meant for the prosperous villages of the central Punjab.

The Mianwali type was recommended for poor communities. Reference has been made above to five societies founded in the Mianwali district by Captain Crosthwaite. The capital of these societies was raised by voluntary grain subscriptions after the *rabi* harvest. The value of these subscriptions was credited to the member's account, and was not returnable for 10 years. The grain subscribed was partly kept for seed advances at the next sowing and partly sold in order to provide funds for money advances. In the beginning advances were given only for seed and purchases of cattle. Interest was charged at rates varying from 5 to 16 per cent and was generally payable in grain. The society's profit consisted of interest, and in cases of advances for sowing, of the difference in the price of grain at harvest and at sowing time.

The Registrar, however, did not take long to realise that both the money-deposit and the Mianwali types of society were not suited to the Punjab, and were not likely to become popular. 1 The Mianwali type offered no inducement for saving, as it allowed no interest on deposits. 2 In the money-deposit type the element of true co-operation was lacking—the society financed the poorer members with money borrowed from the wealthier members, or at their risk. It was more a philanthropic institution than a co-operative credit society.

"The type of society now coming into favour in the Punjab," wrote Mr. Wilberforce in his report for 1906-07, "is one adapted from the system popularised in Italy by Signor Luzzati." In this type, adopted with certain modifications in the Punjab, the members became share-holders by payment of 10 compulsory annual instal-

ments. No dividends were to be declared for 10 years, when three-quarters of the profits were to be divided among the shareholders, the remaining fourth being transferred to the reserve fund.

This type of society, the Registrar points out, was devised not by any Government official, but by the zamindars of the Gurdaspur District. He regarded the share-capital society as possessing special advantages from the point of view of the Punjab agriculturist. The Punjab agriculturist was thrifty enough—encouraging thrift among the Punjab peasants the Registrar likened to "bringing coal to Newcastle"—but he had to learn to make a proper use of his thrift.* The dividend which a member of this type of society would receive after 10 years was like a pension, for the sake of which he might forego his petty extravagances. At the same time an institution is created which finances him on reasonable terms.

In 1906-07, 95 societies working in the Punjab were of the share-capital type, 63 were working only with fixed deposits, and 16 on Mianwali lines.

The progress of the movement was rapid. In the review of the report on co-operation in the Punjab for 1913-14 it was noted with satisfaction by the Government that the Punjab possessed a larger number of societies than any other Province in India, and that the Punjab agricultural societies had collected larger sums as share-capital and deposits than all other societies of the same class in India. In 1913-14 the number of agricultural societies in the Punjab was 2,780, the number of members over 1 lakh, and the amount of working capital about 1 crore.

The development of co-operative societies in the Punjab has been on the lines foreseen in 1906-07. Share-capital preponderates, while deposits from members are comparatively small.

The growth of the co-operative movement in British India is shown by the following statement:

* *Report for* 1906-07, p. 3.

	1913-14	1930-31	1935-36
No. of societies at the close of the year ..	14,881	90,064	91,119
No. of members in thousands ..	696	3,891	4,030
Working capital:			
Loan from private persons, other societies and banks, lakhs ..	4,77	56,65	54,87
Share capital, lakhs	1,10	10,60	11,81
Deposits from members lakhs ..	1,15	6,13	7,78
State Aid	9	1,14	89
Reserve, lakhs	33	9,07	9,78
Total working capital, lakhs ..	7,44	83,60	85,13
Loans issued to members and other societies, lakhs	5,04	37,91	35,25

Progress has been substantial. Between 1913-14 and 1930-31 the number of societies and of members increased more than 6 times, working capital more than 11 times and loans to members and other societies 7 times. This is no small achievment. And yet co-operation has so far only touched the fringe of the problems of indebtedness.

PROPORTION OF MEMBERS OF AGRICULTURAL SOCIETIES TO FAMILIES IN RURAL AREAS (1928).*

	All societies per cent.	Credit societies per cent.
Ajmer-Mewara	15·4	15·0
Assam	2·9	2·9
Bengal	4·4	3·8
Bihar and Orissa	3·2	3·1
Bombay	10·0	8·7
Burma	3·9	3·7
Central Provinces and Berar ..	2·4	2·3
Coorg	36·2	36·2
Delhi	11·5	11·5
Madras	8·3	7·9
N.-W. F. Province	0·2	0·2
Punjab	10·9	10·2
United Provinces	1·8	1·8

* Report of the Agricultural Commission, p. 447.

Among the major Provinces the largest proportion of the rural population affected by the co-operative movement was in the Punjab, but even in the Punjab 89 per cent of the rural population was not touched by the movement. This proportion for the other Provinces was: Bombay 91·3; Madras 92·1; Bengal 96·2; Burma 96·3; Central Provinces and Berar 97·7 and the United Provinces 98·2.

According to figures for 1935-36, Bengal had the largest number of agricultural societies, 21,112, the Punjab following with 18,559. But Punjab had the largest number of members, 632,000 as compared with Bengal's 507,000. Ignoring Coorg, the Punjab leads the rest of India if one considers the number of societies per 100,000 inhabitants, the number of members per 1,000 inhabitants or working capital per head of the population. Roughly, about 14 per cent of the rural population is at present affected by the co-operative movement in the Punjab.

The assistance given by agricultural co-operative societies in the Punjab to their members steadily decreased in the years of depression, when, presumably they required more help:

		No. of agricultural credit societies	No. of members in 1000	Loans to members Total Lakhs	Per member
1927-28	..	14,427	414	237	57
1928-29	..	15,468	455	241	53
1929-30	..	16,125	483	216	45
1930-31	..	16,297	499	140	28
1931-32	..	16,247	490	80	16
1932-33	..	16,268	484	79	16
1933-34	..	16,384	485	91	19
1934-35	..	16,557	493	96	20
1935-36	..	16,820	506	97	19
1936-37	..	16,982	514	97	19

Attention may be drawn to the decrease in the loan per member from Rs. 57 in 1927-28 to Rs. 19 in 1935-36 and 1936-37. Is a loan of Rs. 19 or Rs. 20 sufficient to meet the needs of the cultivator in a year? It is certain that even co-operators are compelled to have recourse to the mahajan. The co-operative

movement, in spite of the remarkable progress it has made since its inception, is still far from having solved the problem of rural indebtedness.

Loans are made by agricultural credit societies for all objects, the most important of them in the Punjab, in the order of their importance, being: debt, cattle, land revenue, trade, ceremonies, land purchase, building, seed, grain, house-hold, land-redemption, fodder and wells. Even loans for litigation are not barred.

In the year 1935-36, 14·27 per cent of the total loans were made for the payment of land revenue. "The proportion of loans advanced for revenue", says the Punjab Report for 1935-36, "shows a steady decrease, but it is very high in some districts, notably Montgomery, where over 50 per cent of the loans are for this purpose" (p. 27).

There are all kinds of non-agricultural societies—societies of small traders and business men, of artisans, menials and labourers, college co-operative stores and big societies like the Lahore Model Town Society, and the North-Western Railway Society, which has a working capital of 34 lakhs and a membership of over 15,000. As regards production and labour societies in the Punjab, the less said the better—such is the Registrar's comment.[1] Industrial societies of artisans have to contend against many difficulties. The Registrar notes that weavers, particularly those working in artificial silk, "are finding it impossible to stand up against machine-produced goods from Japan and elsewhere."[2] There are also non-agricultural thrift and better living societies, the chief object of the latter being the reduction of expenditure on ceremonies. Depression has aided this propaganda. "The villager," says the Registrar, "had some reason on his side who met the better living propagandist with the question: 'Where were you when our pockets were full'? What is the use of this sermon now when we are broke?"[3]

[1] *Punjab Report for* 1932-33, p. 44.
[2] *Ibid.*, p. 46.
[3] *Ibid.*

Co-operators in the Punjab are not lacking in the sense of humour—the Registrar prefers the word 'casuistry.' An old man, a co-operator, married again, the first marriage having been barren, and spent money on the occasion beyond the permitted scale. His society waived the imposition of penalty on the ground that "the expenditure was, in a sense, productive."[4]

Among agricultural societies in the Punjab we may specially mention stock-breeding, milk-recording, better-farming, silt-clearance and consolidation of holdings societies.

Consolidation of Holdings

Consolidation is a remedy against scattered holdings. 62,000 acres were consolidated in the Punjab in 1932-33 (60,000 acres in 1931-32 and 73,000 acres in 1930-31). The number of blocks of land was reduced from 91,500 to 15,400, and the average size of block increased from 0·67 to 4·02 acres. For this work the staff employed (paid by Government) was 8 Inspectors and 104 Sub-Inspectors. The cost to Government was Re. 1-13-1 per acre and 1·13 lakhs in all. In the year 1935-36 over 92,000 acres were consolidated. In spite of additions to the temporary staff the cost of consolidation has fallen to Re. 1-6-11 per acre. The area consolidated was 120,295 acres in 1936-37. The total area consolidated in the whole province up to 31st July, 1937, was 791,358 acres. This is money well spent, even from the point of view of the Government. The cultivated area increases as the result of consolidation and there is thus more land revenue for the Government.

The number of new wells sunk following on consolidation operations in the Punjab since the work started is 1,741.

In some districts part of the cost of consolidation operations is borne by the owners concerned.

The advantages of consolidation are recognised; the Registrar states that there is now a brisk demand for consolidation even in villages where no propaganda has been carried on.

[4] *Ibid.*, p. 51.

At present consolidation is on a voluntary basis, but the question of legislation in this connection (to coerce a minute recalcitrant minority) is being examined.

LAND MORTGAGE BANKS

The deposits which the ordinary credit society receives are withdrawable at short notice; the loans made to it are also for short periods. It follows that the ordinary credit society cannot engage in business in which its small resources would be tied up for a long time, or lend money on security which is not easily realisable. Such is the nature of land mortgage business.

It is also obvious that if credit societies refuse to make advances to their members on the security of their land, they will be driven to the money-lender for long-term loans of large amount. Hence the need for a new type of financing agency—the Land Mortgage Bank.

The first Land Mortgage Bank was established in the Jhang District of the Punjab in 1920, and was for several years the only institution of its kind in India. At present there are 12 co-operative land mortgage banks in the Punjab, 10 in Madras, 3 in Bombay, 2 in Bengal and 5 in Assam.

Our mortgage banks were described by the Central Banking Enquiry Committee (1929) as 'quasi-co-operative.' The purely co-operative type of mortgage bank has no capital, keeps the rate of interest low, and does not aim at profit. "Each member pays a small entrance fee to meet the necessary expenses, initial cost of land valuations and other incidental charges. Credit is created by the issue of mortgage bonds bearing interest and made payable to bearer."[5] The non-co-operative type of mortgage banks, of which a good example is *Credit Foncier de France*, work for profit and declare dividends. The purely co-operative type is represented by the Prussian Farm Mortgage Mutual Credit Associations.

The Central Banking Enquiry Committee made a number of useful recommendations about mortgage banks. They are summarised below:

[5] Report, Central Banking Enquiry Committee, p. 154.

1. The objects of such banks should be: (*a*) the redemption of land and houses of agriculturists, and the liquidation of old debts, (*b*) the improvement of land and methods of cultivation and the building of houses of agriculturists, and (*c*) the purchase of land in special cases.

2. Loans might be granted for stated periods of 5, 10, 15 or 20 years. The amount of individual loans should be limited to a maximum of Rs. 5,000, and should in no case exceed 50 per cent of the value of the mortgaged security.

3. The repayment of loans should be by a system of equated payments, the whole loan being thus repaid at the end of a period of years.

4. The working capital should be derived from two sources, *viz.*, share capital and debentures. The foreign experts whom the Committee consulted suggested that the proportion of debenture to share capital should be 5:1, but the Committee left it to the discretion of co-operators in each Province to raise debentures to the extent they considered necessary. The Committee, however, insisted that the value of the debentures outstanding should in no case exceed the outstanding amount under mortgages given by the borrowers and over which the debenture holder had a floating charge.

5. The debentures should be issued by a central institution, called the Provincial Land Mortgage Corporation, from which the district mortgage banks should be entitled to obtain the necessary finance. This Corporation is to be entirely distinct from the Provincial Co-operative Bank.

6. The Committee definitely recommended that a land mortgage bank should have the power of foreclosure and sale without recourse to civil courts, subject to the right of the aggrieved party to question this action of the bank in the civil courts.

7. The Committee noted that the Land Alienation Act (where it existed) tended to the replacement of the non-agriculturist by the agriculturist money-lender, which necessitated the protection of the small peasant proprietor against the bigger agriculturists; led to the restriction of loans by the non-agriculturist money-lender and

enhancement of his rates; and was a source of trouble in so far as it impeded the free transfer of land: "Moreover, the double object of preventing the free mortgage and sale of agricultural land and the provision of credit for the economic benefit of the agriculturist through co-operative land mortgage banks, cannot easily be achieved."[6] The land mortgage banks must have the right to take possession of land through foreclosure on default of the payment of the instalment of the loan and to sell it. But the sale may be to agricultural classes according to the provisions of the prevailing legislation.

8. Finally, the Committee recommended the development of well-organised joint-stock land mortgage banks for the benefit of land owners who cannot be adequately served by co-operative mortgage banks.

The working capital of the 12 mortgage banks in the Punjab amounts to 18-1/3 lakhs, of which share capital is less than 1¼ lakhs. Over 15 lakhs of the total is a loan from the Punjab Provincial Co-operative Bank, over ½ lakh a loan by the Punjab Co-operative Union. Government has lent Rs. 27,000.

The business of the banks is at a standstill, "their only activities being the collection of their dues."[7] The chief cause of this unsatisfactory state of affairs is the heavy fall of agricultural prices. The burden of the loans taken by agriculturists has increased 3 or 4 times their original value; the borrower is genuinely unable to meet his obligations. The property held by the mortgage banks as security is no longer sufficient to cover the loans; where there have been foreclosures and the taking over of the debtor's lands, it has been found that the total sum to be derived from them was not enough to cover interest charges, the principle remaining unpaid. "Unless," says the Registrar, "the rise in values comes soon, the Banks may have to face considerable losses."[8] There is more than one reason for wishing that the rise in values may come soon, but it is doubtful if any substantial rise in values is coming soon, or at all.

[6] *Ibid.*, p. 176.
[7] Punjab Co-operative Report, 1932-33, p. 38.
[8] *Ibid.*, p. 40.

The problem of overdues is a serious one. There is no hope of recovering the amounts overdue but for economical, financial and also psychological reasons it is difficult to write off the overdues. It is feared that if even a portion is written off the zamindar debtor would be encouraged to think 'that if he waits long enough his entire debt will be written off'. This is the 'psychological' difficulty.

The Reserve Bank insists on separating irrecoverable or frozen debt from the new business of societies. The co-operative department thinks that the Reserve Bank has 'very imperfectly realised' the practical difficulties of dealing with the problem on these lines. The policy of co-operative societies is to restrict their new loans to short term purposes, to secure these strictly 'in accordance with the terms of the debtor's bonds' and 'to attempt to recover, in addition, harvest by harvest, as much of the accumulated past debt as their members are in a position to pay.' It is admitted that in theory the determination of bad debts is eminently sound, but in actual practice exact determination is 'almost impossible.' The experience of the co-operative department is that 'a small turn of the agricultural wheel of fortune results in many apparently bad debts being repaid partially or in full' (pp. 6-7, Punjab Report for 1936-37). The co-operative societies are apparently waiting for this small turn of the wheel. It may take long in coming.

Reserve Bank Report on Agricultural Credit

The Reserve Bank issued a special report in 1937 discussing the financing of agriculture and explaining its position in regard to the assistance which it is exacted to give to the co-operative movement. A summary of this report is given below.

The financing of agriculture is not a simple matter. The assistance which credit agencies can render to agriculture is determined, among other things, by the nature of agriculture itself. Agriculture cannot expect to have the same credit facilities as manufacturing industries for the following reasons:—

(*i*) Manufacturing industries tend to be organized on a very large scale, while agriculture remains scattered, individualistic, small-scale, and chaotic.

(*ii*) Agricultural work is largely incapable of subdivision into simple processes which may be mechanized.

(*iii*) Agriculture largely depends on factors which the farmer cannot control, *e.g.*, weather.

(*iv*) It is difficult for the farmer to curtail or increase production of particular crops according to the fall or rise in their prices.

(*v*) The nature of farm economy develops social characteristics and habits of mind which are an obstacle to corporate effort.

Indian agriculture is subject to special handicaps, which are the following:—

1. The average agricultural holding is small and the quality of the land is generally poor.
2. Holdings consist of fragments scattered over different places.
3. Yield per acre is very low.
4. The cultivators, who are illiterate and ignorant, are not in a position to benefit much by scientific research which has led to increased productivity in other countries.
5. Few cultivators follow any subsidiary occupations.
6. They carry a heavy load of debt. The result of all these factors is that agriculture in India is carried on " as *a mode of living rather than for any profit.*"

Long Term Credit

The cultivator requires credit both for the long and the short period. Short term credit is required for the marketing of crops and for production. Long term credit is required for (*i*) purchase of land, (*ii*) provision of the more expensive, durable, improvements, (*iii*) re-paying old debt.

The total rural indebtedness of India was estimated in 1929 at 900 crores and the burden of indebtedness has doubled on account of the fall in prices. Unless and until this crushing burden of accumulated debt is removed or reduced to an extent that will make it possible for the agriculturists to liquidate it from their own resources, it will be futile to attempt rehabilitation of their credit. The debt must be reduced either in respect of the capital amount or the rate of interest, or both. Even if such reduction is voluntary Government should come to the assistance of both debtors and creditors. Government may give to creditors a *quid pro quo* in the form of a simplified legal procedure whereby creditors may be able to recover their reduced debt. If the voluntary adjustment of capital and interest is supplemented by some form of direct or indirect Government assistance as regards repayment, creditors generally will be prepared to accept very considerable reductions.

Provincial Governments may provide regular machinery whereby long term debt settled by the Concilation Boards could be recovered in small instalments.

The problem cannot however be solved merely by wiping off or reducing previous debts. Suitable and effective measures will be necessary to prevent a relapse. The peasant must be educated out of his ingrained habit of improvidence. Further, his credit must be restricted so as to make it difficult for him to incur debt except for genuine agricultural requirements.

The Reserve Bank report does not discuss the relation of land revenue to debt. Under existing conditions the peasant is forced to borrow to pay the land revenue. Unless there is a complete change in Government land revenue policy, an important cause of agricultural indebtedness will still remain.

The report refers to Land Alienation Acts and Tenancy Acts and comments on them unfavourably. Such legislation has tended to destroy the credit of the peasant-proprietor and the tenant. "In fact, in certain provinces recent legislation is apparently having the effect of inducing the moneylender to draw in his loans and discontinue further advances."

Land Mortgage Corporations

Long term credit is provided for the peasant by Land Mortgage Banks.

Our land mortgage banks are of a co-operative character. The Reserve Bank doubts whether a land-mortgage system, which is co-operative from top to bottom, is the best for our country. It favours a system in which the apex institution (Provincial Land Mortgage Corporation) is run on commercial lines as a business proposition with provisions limiting its dividends.

With regard to the question of direct financial assistance by the Reserve Bank to the existing co-operative Land Mortgage Banks, it is clearly stated that the Reserve Bank cannot afford to lock up its funds in their debentures until the ready marketability of the debentures is clearly demonstrated; and if and when it decides to do so, it can employ only a very limited portion of its capital for this purpose.

Short-Term Credit for Marketing

This is provided by (*i*) Commercial Banks; (*ii*) Co-operative Banks and (*iii*) chiefly by the indigenous banker.

Commercial banks are anxious to develop their business. The chief factor hindering progress is the extraordinary diversification of marketing conditions throughout India and the manner in which produce contracts are drawn. The result is that the financing of crops has been left almost entirely either to the money-lender or to importing and exporting houses.

The following improvements in the marketing machinery are suggested:—

(*i*) The staples against which advances are to be made should be reasonably standardised. There should be similar standardisation of the contracts relating to them. Standardisation would create definite, and easily realizable securities for advances.

(*ii*) Provision should be made in regulated markets for properly storing the staples under proper supervision

and under conditions which will permit of their being insured.

(*iii*) Attempt should be made to create throughout the country properly regulated forward markets, so that the value of the produce may be hedged and the risk of violent market fluctuations mitigated.

Special machinery is required for financing the current needs of the agriculturists. So far the commercial banks have held aloof from this field. Possibly the bigger landlords are able to borrow from commercial banks. "The ordinary cultivator has to have resource to the money-lender."

It was thought that co-operative credit would rescue the peasant from the clutches of the money-lender. This expectation has not been fulfilled. On an average co-operative credit societies supply only about 6 p.c. of the finance required for the current needs of agriculture in India as a whole.

Co-operative credit societies are face to face with a very serious problem, that of over-dues. The over-dues are everywhere large and have in effect become long-term loans.

It has been suggested that such debts may be transferred to land mortgage banks. But that might endanger the existence of these banks. The report states that so far as overdue debts are beyond the capacity of the debtors to pay even in prolonged instalments, they must be reduced.

The Co-operative Central Banks must first reduce debts so that the agriculturist can pay them out of the profits of agriculture within, say, 20 years. The irrecoverable portion will have to written off from the reserve and other funds of co-operative banks.

The report makes it clear that co-operative societies will get no help from the Reserve Bank unless they are able to separate their long-term debts from other business. Agricultural paper which represents the renewal of bad loans, coming through co-operative banks, will not be re-discounted by the Reserve Bank.

Impt The following suggestions are made by the Reserve Bank as to how Co-operative Societies should work in the future:—

(*i*) Loans must be strictly limited to cultivation finance.

This should ordinarily mean expenses in connection with agricultural operations like ploughing, sowing, reaping etc. But loans may be made for purchase of cattle and implements and also for maintenance of the farmer's family till the next harvest.

(*ii*) There should be no over-financing or over-lending.

(*iii*) If loans have to be made which cannot be repaid in one year (*e.g.*, for replacement of cattle), such loans should not extend to say more than two years, and provision should be made for their repayment in equal instalments.

(*iv*) All loans must be issued in instalments as money is required, not in one lump sum.

(*v*) If loans are not repaid within the stipulated period, immediate steps must be taken to recover the amount, unless there is a crop failure.

The report of the Reserve Bank on agricultural credit is an important document which deserves to be carefully studied by every one interested in the welfare of peasants and particularly by the Punjab Government who have initiated a senseless campaign against the money-lender, which must tend to destroy the whole foundation of rural credit. The problem is far too complicated to be solved by abusing the money-lender, by penalising fraud and dishonesty in money-lending transactions (this is not an argument against such legislation) or by the attempt to make the money-lender bear the whole cost of indebtedness relief. Government must share the cost of this relief, or the problem will remain unsolved.

We may also usefully study the methods of farm relief in other countries. The heavy fall of agricultural prices had a ruinous effect on peasants throughout the world, reducing their income and increasing their burden of debt. What action was taken in different countries to assist agricultural debtors?

Farm Relief in other Countries

The relief of agricultural indebtedness has been thoroughly studied by Sig. G. Costanzo in the pages of the 'International

Review of Agriculture,' Rome (January, February, March and April, 1937). He divides the States into 3 Groups, (1) States that have taken radical measures aiming directly at relieving the farmers from the burden of their debts, (2) States that have directly intervened in the matter, but have endeavoured to assist debtors without affecting the interests of creditors, and (3) States that have helped the debtors mainly by indirect means, 'or by a general policy of strengthening and protecting agricultural economy, but without violating the principle of respect for obligations incurred.'

'It is needless to say,' says Sig. Costanzo, 'that the plans for the adjustment of debts have involved the Governments in financial operations often on a large scale' (p. 12 E).

This is in marked contrast to our own policy. Here we propose to relieve agricultural indebtedness without spending a pie of Government money!

Sig. Costanzo has not failed to note that the radical measures adopted in certain countries (compulsory reduction of the rate of interest and of the capital sums due and application of a moratorium) 'have usually had results contrary to what was hoped from them,' that is, contraction of credit. Violent disputes also broke out between debtors and creditors which made it necessary for public authorities to adopt 'new measures in order to calm the people' (p. 12 E.).

His study leads him to the conclusion that the results of drastic public interference in debtor and creditor relations are 'regrettable', and that a wiser course is to adopt measures 'that respect contractual obligations and protect the distressed debtors without too greatly sacrificing the creditors, such as the repayment of the debt by instalments over a series of years, contribution by the State towards the payment of interest etc.' (p. 12-3 E). He also considers it essential 'to go to the root of the evil,' that is to raise agricultural prices to a remunerative level.

Reasons of space compel us to notice only the chief features of the indebtedness legislation of different countries. For fuller details the reader must refer to Sig. Costanzo's articles.

Central and Eastern Europe

1. *Germany.*—Total indebtedness of German agriculture was estimated at 11,300,000,000 to 11,400,000,000 marks on July 1, 1935. The interest payable annually was 1,000,000,000 marks in 1931-32 and 650,000,000 marks in 1934-35, a reduction of more than a third.

'Osthilfgesetz' (law to help Eastern district) was passed in March, 1931 and completed by other legislative measures in 1931 and 1932. Under this law the floating debts of a needy farmer were replaced by a special loan granted by the Bank for German Industrial Securities. The resources needed for the relief of indebtedness were obtained to a large extent from a fund formed by levies imposed on industry. The Government guarantees up to 25 per cent of the loan in the event of the non-payment of the mortgage loans created in relieving the indebtedness.

Hitler's Government introduced measures of protection against distraint. The regulation of the debts consists mainly in the reduction of the interest to a rate of 4½ per cent. Under certain conditions the capital sum may be reduced by 50 per cent.

2. *Bulgaria.*—A law of April, 1932 granted facilities for the extinction of debts by allowing a postponement of payments and by a reduction of the rate of interest and of the amount of the debt.

A new law (Jan. 1934) granted a large measure of relief to the debtors and 'gave to the creditors the assurance of recovering the sums due to them, the State intervening to pay the difference' (p. 75 E.).

Maximum reduction in the capital sum is 40 per cent.

3. *Greece.*—Under a law passed in January, 1930 a special court could grant to farmers a suspension for 5 years for the repayment of their debts and for the annual charges to be paid. Special measures taken to lighten the debts of peasants are the following: (*i*) exemption from distraint of a certain area of land, *e.g.*, about 5 acres of arable land or 1¼ acres of vineyard, etc. (*ii*) the annual charges not paid by the farmers who benefitted by the agrarian reform will be payable in 25 years, (*iii*) debts to the Government

of certain refugee peasants were reduced by 40 per cent and the rate of interest on such debts was reduced from 8 to 3 per cent.

4. *Hungary.*—Decrees issued in 1932 gave facilities for the repayment of debts. A decree of 1933 granted in addition a contribution of the State towards the payment of interest on certain classes of debts. Further, indebted land-owners have been protected against distraint, and the rate of interest has been reduced.

Provision was made for giving compensation for losses suffered by credit institutions on account of the reduction of interest. A special fund was set up, out of which the State will make the payment of 25,000,000 pengoes necessary for the reduction of the debt of owners of farms less than 10 arpents in area.

The protection afforded to debtors tended to become an obstacle to a further grant of credit. 'Green credit' or production credit, was therefore excluded from the protection of debtors.

5. *Poland.*—For long-term debts due to individuals a period of exemption from the repayment of capital was allowed, and interest fixed at 6 per cent. The postponement of repayment was later extended to 1st January, 1938. It affects the repayment of capital. The payment of interest is compulsory.

For short-term debts due to individuals, dating prior to July 1, 1932, the Decree law provides for compulsory conversion, that is, these debts must be paid in 14 years, the rate of interest fixed being 3 per cent.

6. *Rumania.*—Provision has been made for the reduction of a creditor's claim by 50 per cent; the remainder is payable by half-yearly instalments over a period of 17 years, with interest at 3 per cent. Debtors agreeing to pay the reduced debt more quickly get the benefit of reduction of 60 or even 70 per cent. For example, debtors who pay the reduced debt within two years from the date of the publication of the law, will benefit by a reduction of 70 per cent on the condition that they pay, in the course of the first year, at least 15 per cent of the total amount of the debt, interest included.

In this little country the problem has been faced 'in all its amplitude.' Taxes have been reduced and action has been taken

to raise the prices of cereals. The State has granted aid to debtors for the liquidation of their debts, and it regulates foreign commerce with the object of developing exports of agricultural produce.

7. *Czechoslovakia.*—Government decrees of 1935 reduced rates of interest and granted facilities for the payment of debts. In the case of a long-term debt the debtor is called upon to pay, as from January, 1 1936, an annuity charge of ¾ per cent of the principal, plus interest at the reduced rate. The payment of other agricultural debts is spread over 8 or 9 years. The trade in cereals, flour, milling products and certain kinds of fodder is regulated by Government. The object is to enable farmers to obtain fixed prices for their products. The same measures insuring an equitable return to the farmers' labour have been applied to animal husbandry.

8. *Yugoslavia.*—Debts arising out of the purchase of goods and out of the services of artisans must be completely repaid, but without interest, by instalments spread over 12 years, starting from November, 1936.

Other debts are reduced by 50 per cent; the remainder must be repaid, with interest at 5 per cent, in instalments spread over 12 years.

9. *Estonia.*—Under a law passed in 1934 agricultural debts were converted into long-term loans of the Land Bank up to a total amount of 10 million Estonian crowns, with the exception of debts of more than 100 per cent of the land value, which were converted into loans for a term of 30 years without interest.

10. *Latvia.*—Certain small loans that the State had granted to farmers were completely cancelled (p. 95 E.). Short-term loans due to co-operative credit societies and private banks were transferred to the State Land Bank and converted into long-term loans. Unorganised short-term credit has lost almost a third of its importance.

11. *Linthunia.*—By a law of 1934 farmers were allowed to repay their private debts by means of bonds of the State Agricultural Bank, bearing interest at the rate of 3·6 per cent at their nominal value. The farmer may procure these bonds from the

Bank in the form of long-term loans, or he may buy them in the open market.

Western Europe

12. *Belgium.*—The measures taken are generally applicable and were not taken solely on behalf of agriculture. The reduction of interest is facilitated, and the mortgage debtor, acting in good faith, may ask for conditions and postponements, provided that his loan agreement was made prior to 1st July 1934.

13. *France.*—The measures taken consist mainly in the granting of postponement of repayment to the various classes of debtors.

14. *Italy.*—The indebtedness of Italian agriculture was estimated in 1933 at between nine and ten thousand million liras.

A decree of 1930 provides for the repayment over a period of 25 years of short-term loans contracted when prices were high. The State undertakes to repay a part of the repayment instalments, to the extent of 2½ per cent. A decree of 1931 gave to the farmers, who were in arrears with these payments, the possibility of repaying in small instalments loans for working capital obtained from agricultural banks. The State has granted a contribution towards the payment of interest in respect of these loans.

The State has also undertaken certain other obligations.

15. *Switzerland.*—Assistance may be given in several forms: (*a*) suspension of the repayment of capital; (*b*) in respect of debts repayable by instalments, the annuity charge may be reduced; (*c*) reduction of the rate of interest; (*d*) reduction or suppression of interest on capital sums not secured; (*e*) extinction of interest in certain cases.

Scandinavian Countries

16. *Denmark.*—Government established 'crisis funds' to be distributed in the form of subsides to the most distressed farmers.

The State grants loans to farmers out of the Industrial Loan Fund, but creditors cannot be paid more than 35 per cent of their

claims, except under certain conditions, when they may receive a further 35 per cent.

In order to ligthen the burden of taxes and mortgage interest payable by owners and tenants of farms, Parliament granted a considerable sum of money to be distributed according to determined principles.

A law passed in 1933 facilitated the conversion to loans at a lower rate of interest of the loans granted by the mortgage credit companies.

17. *Norway.*—An Agricultural Credit Bank was established to facilitate the adjustment of debts and for the conversion of loans guaranteed by mortgage on farms. Loans granted by the Bank for the voluntary adjustment of debts cannot exceed 15,000 crowns, and must not exceed 30 per cent of the value of the farm. The farmer's debt having been thus adjusted, loans are granted to him for the acquisition of farming requisities and improved cultivation.

18. *Sweden.*—Parliament granted large sums for 'agreement loans' 'assistance loans.' In regard to the 'agreement loans' the creditors may receive in place of 60 per cent, as previously, 70 per cent of their total claims. Loans are also granted to prevent forced sales of land.

10. *Finland.*—The Land Mortgage Bank was re-organised. By a law passed in 1934 the Bank buys the farms sold at any forced sale by auction. The purchase price is paid in the form of bonds guaranteed by the State at their nominal value. The farm bought by the Bank is partly or wholly either transferred against a mortgage guarantee to its previous owners, his wife or his relatives, or else taken over by the State.

Other Countries

20. *Japan.*—Agricultural distress is mainly due to the relative insufficiency of the area devoted to agriculture. 71 per cent of the peasant families have less than 2½ acres of land at their disposal; only 25 per cent of cultivators have sufficient land, and barely 3 per cent cultivate land of an area that allows of a prosperous agricultural economy. The total agricultural indebtedness was estimated at between four and six thousand million yens in 1929.

Associations have been formed for the adjustment of indebtedness, or for reduction of the principal and the rate of interest by agreement between the debtor and his creditors.

21. *Canada.*—By a law passed in 1934 farmers may make concrete proposals to official receivers for the settlement of their debts. Up to 1st Oct. 1935, 16,000 farmers had done so, of whom 10,625 arrived at definite agreements, and an indebtedness of 70 million dollars was reduced by 12 million dollars.

The Farm Loans Board grants loans to farmers.

22. *Argentina.*—Money is borrowed from private individuals who also sell goods required by peasants. The fall of prices placed the peasant 'entirely at the mercy of the retail dealer.'

By a law passed in 1933 the repayment of mortgage debts was postponed for three years; at the end of 1936 the moratorium was extended by two years.

23. *Brazil.*—A decree of December 1933, reduced by 50 per cent agricultural debts contracted before June 30, 1933, on the security of real property, and also all debts contracted after that date in order to renew previous debts. Reduction also applies to debts contracted with banks in the event that the debtor finds himself in a state of insolvency.

24. *Australia.*—The debt situation was examined by a Royal Commission, which recommended the establishment of Debt Adjustment Committees. All wheat growers who showed a reasonable chance of again becoming prosperous were to be assured of national aid.

By a law of 1935 a sum of not exceeding £12,000,000 could be lent to the States to be utilised in making payments to the farmers, or on their behalf, in order to enable them to make voluntary arrangements with their creditors.

The Union of South Africa, according to its Minister for Agriculture, has spent no less than £33,000,00 on farm relief. Writing in the *Weltwirtschaftliches Archiv* for November 1935 Dr. H.M. Robertson of Kapstadt (South Africa) said that 'this is no exaggeration' (*ist also keine Uebertreibung* p. 505). The

Government spent £7,675,000 on bounties on the export of agricultural products, £720,000 on writing off the loans due by farmers to co-operative credit societies, £4,123,000 to enable farmers to pay off the most pressing other debts, etc. In the United States amendments to the Farm Loan Act made it possible for the Federal Land Banks to issue farm-loan bonds upto an aggregate amount of 2,000 million dollars for the purpose of making new loans, or for purchasing mortgages, or for exchanging bonds for mortgages. The interest at a rate not exceeding 4 per cent was guaranteed by Government. Considerable sums of money were further provided by the State for (*a*) re-financing any indebtedness of the farmer, (*b*) providing capital for his farm operations, (*c*) enabling him to redeem and—or re-purchase farm property which was foreclosed at any time after July 1, 1931, and for other purposes (see *The Future Comes* by Board and Smith, Macmillan Co. of New York. 1933, p. 82 et seq).

It is estimated that the income of American farmers fell from 11,000 million dollars in 1929 to 5,000 million dollars in 1932; their total debts to the banks in 1929 were estimated at 12,224 million dollars (about Rs. 3,400 crores) on which the annual interest charges amounted to 600 million dollars (about Rs. 165 crores). " To pay this sum out of a total income of 11,000 million dollars," we are told, " was possible; to pay it out of 5,000 million dollars was out of the question without real starvation " (*The Roosevelt Illusion* by Burns and Roy, p. 19).

It is evident that Governments of many countries have undertaken heavy financial obligations in order to lighten the burden of debts. Even in India the Bhavanagar State lent money at 4 per cent to the cultivators to enable them to pay off the amounts of debts settled by Conciliation Boards. Moneylenders in the Punjab would probably accept four annas in the rupee if the payment were guaranteed by the State.

Will the agrarian legislation of the Punjab Government make the supply of loanable capital more plentiful in the villages? No. On the other hand it must make capital scarcer. Will it reduce the demand for capital? The answer is again ' No.' Even if all

existing debts were completely wiped off, the peasant would still have to borrow for the payment of Government dues and for household expenses.

For 1938-39 the land revenue (gross) is estimated at 479 lakhs and Irrigation receipts at 432 lakhs (Direct receipts Rs. 4,30,67,000 and income from works for which no capital accounts are kept 1,25,000). This makes a total of 9,11 lakhs. In 1928-29, when prices were much higher than to-day, the total of these payments was slightly less, 8,66 lakhs. Who can believe that at a time when cultivation has become unprofitable over a large part of the Province, the peasants can pay Government dues without borrowing?

Out of 9 crores probably 4 crores are paid every year by borrowing. Unless prices go up, and unless the burden of Government dues is substantially reduced (a remission of 50 or 60 lakhs in land revenue will make no difference to this argument) the peasants would continue to borrow about 4 crores every year for the payment of Government dues alone. In 25 years (assuming that we start with a clean slate) the accumulated debt, for which Government would be responsible, would amount to 100 crores. The growth of interest charges from year to year can be easily calculated.

If capital becomes scarcer while demand for capital is as great as before, all attempts to control the rural rate of interest and to check dishonesty and fraud in money-lending transactions would largely prove futile. Interest is a price. The rate of interest is high in the villages because of the comparative scarcity of capital and of the element of risk. It will remain high.

There is one simple solution of this problem. Let Government take over rural finance. Are Government prepared to do that? Are Zamindara Banks in a position to meet all requirements of all borrowers?

Under existing conditions the certain result of the agararian legislation of the Punjab Government would be to place poorer peasants in the grip of non-working agriculturists. The peasant must borrow; if the non-agriculturist money-lender disappears (as he would tend to do) the peasant will borrow from the agriculturist. The agrarian

legislation of the Government should hasten the process of swallowing up of the smaller by the bigger agricultural fish. The borrower may not be able to sell his land to the agriculturist lender, but he will sell it to some other agriculturist. The net result must be the fall of ancient owners to the position of tenants.

The Central Banking Enquiry Committee made its recommendations regarding debt relief before the effects of the trade depression began to be seriously felt in India. The estimated rural debt of the different provinces in 1929 is shown by the following statement:

TOTAL RURAL INDEBTEDNESS

	Crores		Crores
Assam ..	22	C. P.	36
Bengal ..	100	Coorg ..	35-55
Bihar and Orissa ..	155	Madras ..	150
Bombay ..	81	Punjab ..	135
Burma ..	50-60	U. P. ..	124
Central Areas ..	18		

→ 900 crores.

The solution suggested by the Central Banking Enquiry Committee was debt conciliation on a voluntary basis. The details of the Committee's scheme are given below:

(1) Special officers should be appointed in each Province to persuade the lender and the borrower to agree to a redemption of standing debt on the basis of a cash payment or equated payments spread over a number of years.

(2) The existing co-operative credit societies should be utilized as the agency for the payment to the lender of the amounts payable under the terms of the settlement.

(3) The outstanding part of the settled debt will be treated as a deposit by the lender with the co-oporative society. This will be paid to him in the settled annual instalments.

(4) Where part of the settled debt is to be paid in cash, Government should advance to the co-operative society the necessary funds which will be repaid by the society in annual instalments.

(5) In cases where a society is subjected to loss on account of the failure of the borrower to pay his instalments, the Government should come to the assistance of the society.

The payment of the guaranteed debt would be spread over a number of years, say ten or more. The Punjab Provincial Banking Enquiry Committee pointed out that for such debts co-operative societies would require mortgage security. "But there are objections to village societies dealing in this form of security, and in the Punjab these objections have always been regarded as so weighty that mortgages are rarely taken" (p. 23).

The Central Banking Enquiry Committee, however, thought that there could not be any objection in principle to an ordinary co-operative society undertaking the work, as "the repayment of the settled amount of the debt will be made from long-term deposits either from the lender or the Government" (p. 66).

Voluntary debt conciliation, and the payment of the settled debt by instalments through co-operative societies would be a satisfactory arrangement; where the lender does not agree to a voluntary settlement of the debt, the Central Banking Enquiry Committee suggested compulsory settlement by means of legislative enactment.

There is no objection in priniciple to the compulsory settlement of debts. Our brief review of Government measures of farm relief in different countries shows that in some cases the capital debt has been reduced as much as 50 per cent. There is of course less objection to the remission of part or even whole of accumulated interest, to the lowering of the rate of interest, or to the prolongation of the period of payment of the settled debt. We have seen that in several countries short-term loans have been converted into long-term loans, and also that State banks have facilitated the payment of settled debts through the issue of bonds, carrying the guarantee of the State, which the creditors are obliged to take.

If voluntary debt conciliation fails, the State would be justified in suitably reducing both the accumulated interest and the capital debt.

It would be desirable to make a distinction between large and small proporietors. The strongest case exists for the reduction of debts owed by peasant proprietors, owning and cultivating 10 or 12 acres or less. The case for the reduction of debts owed by cultivating tenants is equally strong. No ground exists for debt reduction

in the case of non-cultivating landlords, particularly when the debts were not incurred for agricultural purposes.

Relief from indebtedness is only one aspect of the problem of farm relief. The landholder deserves relief from the heavy burden of taxation. And the worker deserves relief from the heavy exactions of the non-working landlord.

CHAPTER XX

AGRARIAN LEGISLATION, PUNJAB

Since the trade depression, important legislation has been enacted in the Punjab for the relief of agricultural debtors. The measures are, Regulation of Accounts Act, 1930, Relief of Indebtedness Act, 1934, Debtors' Protection Act II of 1936 and four bills known in Government circles as 'Golden Bills'.

Regulation of Accounts Act, 1930. Under this Act it is the duty of the creditor to record and maintain regularly in the manner prescribed by Government a separate account for each and every debtor and to furnish a legible statement of accounts at the end of every six months to each and every debtor. If he fails to do so in regard to a loan, even if his claim is established in whole or in part, the court shall disallow the whole or portion of the interest found due, as might seem reasonable, and further disallow costs.

The Relief of Indebtedness Act, 1934 consists of 6 parts.

Part I defines a loan. A loan may be in money or in kind.

Part II simplifies insolvency procedure. A person who only owes Rs. 250 can apply to be adjudicated insolvent. The value limit for Summary Administration for the estates of insolvents has been raised from Rs. 500 to Rs. 2,000, that is estates of the value of Rs. 2,000 can be summarily administered. In summary administration it is not necessary to appoint a receiver or to publish certain notices.

Part III is concerned with usurious loans. The court shall deem interest to be excessive if on secured loans it exceeds 12 per cent per annum simple interest, or 9 per cent compound interest, and if on unsecured loans it exceeds 18¾ per cent simple interest or 14 per cent compound interest.

Part IV makes provision for the setting up of Debt Conciliation Boards.

A Debt Concilation Board shall consist of a chairman and two or more members to be appointed by the local Government, for a term not exceeding 3 years.

An application for debt settlement may be made to such Board by a debtor or any of his creditors. When a debtor has applied for settlement, the Board shall call upon every creditor of the debtor to submit a statement of debts owed by the debtor. Every debt of which a statement is not submitted to the Board *shall be deemed for all purposes and all occasions to have been duly discharged.*

The creditor will be bound to furnish all necessary information to the Board, supported by documents, regarding his claim. The debtor will be called upon to explain his case, and finally the Board shall " use its best endeavours to induce them to arrive at an amicable settlement."

If the debtor and all or any of the creditors come to an amicable settlement, the Board shall forthwith reduce the settlement to writing. The agreement will then be registered and take effect as if it were a decree of a civil court.

If no amicable settlement is arrived at, the Board shall dismiss the application.

If a creditor refuses to accept what the Board considers a fair offer on the part of the debtor, the Board may grant the debtor a certificate in respect of the debts owed by him to such creditor. The advantage of this certificate to the debtor will be that if the cerditor sued him for the recovery of the debt, the court shall not allow the plaintiff (creditor) any costs in such suit, nor interest on the debt after the date of registration at more than 6 per cent per annum simple interest.

In a similar Act prepared in the Central Provinces the debts payable under an agreement approved and registered by the Conciliation Board are recoverable as arrears of land revenue by the Collector, but if the Collector is unable to collect them, the agreement ceases to subsist and the creditor may sue in a civil court. " Thus the whole proceeding process becomes barren," is the comment of the Punjab Committee of Indebtedness. The

simplification of insolvency procedure, which is a part of the Punjab Act will prevent the work of our Conciliation Boards from becoming barren. The agreement, as we have seen, after being approved and registered by the Conciliation Board, will have the character of a decree of a civil court. If the debtor refuses to pay according to the terms of the settlement, he will be dealt with by special Petty Insolvency Judges.

The amounts payable under an agreement must be paid before any debts incurred after the date of the registration of the agreement. Similarly, where the Board has granted a certificate to a debtor and an unsecured creditor sues for the recovery of a debt in respect of which a certificate has been granted, nothing will be legally payable until all amounts payable under an agreement have been paid.

It has been provided that no appeal or application for revision shall lie against any order passed by the Board, but the Board may review its own orders. Parties before the Board may be represented by agents, but not by legal practitioner.

The ancient principle of *Damdupat* has been applied in Part to agricultural debts. In any suit brought against an agricultur for the recovery of a loan taken after the commencement of th Indebtedness Act, no court shall pass a decree for a larger sum than twice the amount of the sum taken as principal. Loans made by a bank to an agriculturist will not be subject to this provision.

Finally in Part VI it has been provided that an agriculturist debtor may, at any time, deposit in court a sum of money in full or part payment of his debt for payment to his creditor. From the date of deposit interest shall cease to run on the sum so deposited.

Debtors' Protection Act, 1936. Under this Act civil courts can order that the land of a judgment debtor be attached and temporarily alienated and then transfer the execution proceedings to the Collector of the district. The Collector (Deputy Commissioner) is to determine how much of the land of the judgment debtor is to be attached and alienated and for what period, not exceeding 20 years. Such portion of the judgment debtor's land shall be exempted from temporary alienation as in the opinion of the Collector is sufficient to provide for the judgment debtor's

maintenance and the members of his family who are dependent on him. Ancestral immovable property in the hands of a subsequent holder shall not be liable in the execution of a decree or order of a court relating to a debt incurred by any of his predecessors except when the debt has been expressly charged by way of mortgage on such property.

The Punjab Agricultural Produce Markets Act, 1938. Under this Act market committees can be established by Government for every notified market area.

1) When an area has been declared a notified market area, no person shall, within the notified market area, set up any place for the purchase or sale of the notified agricultural produce except under a license granted by Government .

2) Licenses shall be granted to brokers, weighmen, measurers, surveyors, warehousemen and others who use the market.

3) Every market will be administered by a market committee. Two-thirds of the members of the market committee will be selected by growers in the district in which the notified area is situated. Government may appoint not more than three persons by office.

(4) The market committee will hold office for three years. It is empowered to levy fees on agricultural produce bought and sold by licensees.

(5) All income accruing to the committee will be placed in a fund called Market Committee Fund. This will be utilized chiefly for the following objects: (1) maintenance and improvement of the market, (2) repair and construction of market buildings, (3) provision and maintenance of weights and measures, (4) Collection and dissemination of information regarding marketing and crop statistics, and (5) provision of comforts for those who use the market.

Marketing legislation was long over-due. This is on account of the multiplicity of marketing functionaries and the unregulated state of their charges.

The existing marketing organisation is described below.

The arhatiya as a marketing functionary is well-known. An arhatiya may be kachcha or pukka. A kachcha arhatiya is a man

with small capital working in a locality as a middleman or an intermediary between the primary producer or the seller and the buyer in large, wholesale markets. In some cases kachcha arhatiyas finance the producer and village bania mainly on condition that the latter sells his goods through them. Pakka arhatiyas are usually firms of some substance dealing in grains, or other primary produce either as agency houses or on their own account. They also help in the assembling of the produce by financing the operations of the kachcha arhatiya and other small traders. They represent one of the main channels of distribution. As a rule pakka arhatiyas do not buy direct from the primary producer.

The function of the dalal or broker is to bring buyers and sellers together. He maintains no establishment and works alone.

The tola or weighman weighs the produce; sometimes the kachcha arhatiya performs the functions of the weighman.

Finally there are palledars who assist in unloading the cart, cleaning and dressing the produce, in weighing, bagging etc., and other functionaries such as waterman, sweeper, cook etc.

The corresponding marketing charges are:

Arhat (commission) which in some markets is paid jointly by seller and buyer and in others by the seller alone. The buyer's share in the case of wheat has been found to range between As. 2½ per cent at Lyallpur and As. 10 at Sargodah.

Dalali, brokerage, is often paid by the seller only.

Karda, in the Punjab, is the excess weight deliverable by the seller. It varies from ¼ seers per bag of 2½ maunds of wheat at Fazilka to 1¼ seers at Mandi Baha-ud-Din.

Palledari is wages paid to labourers, weighing charges and cartage to the buyer's go-down. The weighing charge is generally payable by the seller both in cash and kind. The rate of tulai varies considerably. For other charges, sometimes the buyer but more often the seller is liable.

Dharmada is a payment for charity. It is paid by the seller at the rate of 6 pies to 2 As. per Rs. 100. This payment is in no way directly connected with marketing and it is not always utilised for the objects for which it is collected.

Other miscellaneous charges are market fees, bazar chaudhri, shagirdi (fee levied in some cases by arhatiya to cover the wages of his apprentice), batta (discount or exchange fee), muddat (a charge made by the arhatiya to cover interest, since he pays the seller immediately but does not receive payment from the buyer for several days), payments to waterman, chaukidar, cook and sweeper.

There is obviously need for regulating these charges, moderating those which are excessive, legalising those which are fair and reasonable and abolishing others which are unnecessary. In regulated markets only authorised charges are permitted to be levied, and their scale is fixed.

Regulated markets, where market charges are clearly specified and trade practices duly controlled by market committees fully representative of all interests concerned, exist in centres administered by the Bombay Cotton Markets Act, 1927, and Hyderabad Agricultural Markets Act (1929-30). Both of these Acts require that not less than half of the committee members be elected by the growers. Official and local authorities are also represented on the market committee. There is licensing of brokers and weighmen, weights are controlled, price is fixed in public and returns or accounts must be kept in a prescribed manner. Twenty-nine regulated cotton markets exist also in the Central Provinces and Berar.

By the end of 1935 the Hyderabad Agricultural Markets Act had been applied to 9 towns. As under the Bombay Cotton Markets Act, when the goods have been weighed by the licensed weighmen, a receipt it given to the seller with necessary details. When the produce is sold, the broker again passes the slip in which full details regarding the rates, marketing charges, weight etc. are noted. Copies of these slips are sent to the office of the market committee.

The Punjab Act will create regulated markets with specified marketing charges and thus promote honest dealings between buyers and sellers.

THE 'GOLDEN BILLS'

Agrarian legislation of the Punjab Government, known as the 'golden bills' in Government circles, comprises four bills which have been placed on the Statute Book. Two of these bills amend the Alienation of Land Act of 1900; a third bill provides for the registration of money-lenders, and a fourth for the restitution of lands on which a mortgage was effected before 8th of June 1901.

Amendment II to the Alienation of Land Act, 1900 declares *benami* transactions invalid. When a sale, mortgage or lease purports to be made by a member of an agricultural tribe, or of a tribe in the same group, but the effect of the transaction is to pass the beneficial interest to a person who is not a member of the same tribe or of a tribe in the same group, the transfer shall be void for all purposes, and the alienor shall be entitled to possession of the land so alienated notwithstanding the fact that he may have himself intended to evade the provisions of the Act.

The statement of objects and reasons explains that the object of the amendment is to prevent fraudulent transactions and to secure that *benami* transfer intended to evade the provisions of the Act of 1900 can be reversed in all cases. The person dispossessed can claim compensation for improvements, but not exceeding the value of the original transaction.

Amendment III to the Alienation of Land Act is concerned with zamindar money-lenders. Its object is to prevent the acquisition of the land of the debtor by the zamindar creditor in satisfaction of his claim. The restrictions imposed on the agriculturist creditor have also been imposed on all males who can trace their descent from the creditor's grand-father and their wives; similarly, the restrictions imposed on the debtor have also been imposed on all males who can trace their descent from the debtor's grand-father, and their wives. The creditor cannot buy the land of the debtor until three years after the payment of the debt in full.

Under the Registration of Money-Lenders' Act all money-lenders will have to get themselves registered and to hold a license on the payment of the fees that may be fixed. Failing to do so

no court shall entertain any suit by a money-lender for the recovery of a loan or application for the execution of any decree relating to a loan.

A license may be cancelled by a Collector for a specified period if a money-lender:

(*i*) has been held by a court to have contravened the provisions of sec. 3 of the Regulation of Accounts Act more than once [recording and maintaining an account for each debtor separately];

(*ii*) has had his suit dismissed, in whole or in part, under sec. 37 of the Punjab Relief of Indebtedness Act [making an entry in an account showing the sum advanced to be in excess of that actually advanced];

(*iii*) has had his suit dismissed for having made dishonestly or fraudulently, a material alteration in any document relating to a loan;

(*iv*) has had his suit dismissed as vexatious, fraudulent or frivolous;

(*v*) has been found by a Court of Law to have charged higher rates of interest after the commencement of the Act than those prescribed under sec. 5 of the Punjab Relief of Indebtedness Act [12 per cent for secured and 18¾ per cent for unsecured loans];

(*vi*) has been found guilty by a Court of Law of forgery or cheating in respect of a money transaction, provided that such forgery or cheating had been committed after the commencement of this Act.

Except when specially permitted to do so by the Collector, no Court shall entertain a suit for the recovery of a loan, or an application for the execution of a decree by a money-lender during the period for which his license has been cancelled.

According to the statement of objects and reasons, the object of this Act is to 'check malpractices on the part of certain dishonest lenders.' In the interest of honest money-lenders it is desirable 'that the profession should be purged of dishonest members whose

methods and exactions create a feeling of suspicion and hostility against the profession as a whole.'

The fourth bill extinguishes mortgages effected before the commencement of the Punjab Alienation of Land Act, 1900. Clause 7 of the Bill is reproduced below:

"7. *(1)* If the Collector finds that the mortgage is one to which this Act does apply, he may, notwithstanding anything contained in any other enactment for the time being in force, direct by order in writing:—

(*a*) that the mortgage be extinguished; and

(*b*) that where the mortgagee is still in possession, the mortgagor be put in possession of the mortgaged land as against the mortgagee, and the title deeds be restored to the mortgagor.

(2) If the Collector finds that the value of the benefits enjoyed by the mortgagee while in possession, equals, or exceeds the amount due under the mortgage, the mortgagor shall be put in possession of the land without further payment.

(3) If the Collector considers that after taking into consideration the value of the benefits, mentioned in sub-section (2), some payment is due to the mortgagee under the contract of mortgage, the restitution of land shall be made subject to the payment of compensation not exceeding the following rate:—

(*i*) thirty times the land revenue assessed on the land at the time when it was mortgaged if the mortgagee has been in possession for a period exceeding thirty years but not exceeding forty years;

(*ii*) fifteen times the land revenue assessed on the land at the time when it was mortgaged if the mortgagee has been in possession for a period exceeding forty years but not exceeding fifty years;

(*iii*) five times the land revenue assessed on the land at the time when it was mortgaged if the mortgagee has been in possession for a period exceeding fifty years."

The statement of objects and reasons explains that a number of mortgages of land by members of agricultural tribes before the 8th June 1901, that is the date on which the Punjab Alienation of Land Act came into force, are still in existence, in spite of the fact that mortgage money has been realised many times over from the profits of the land. The object of the Act is to terminate such

mortgages on payment of reasonable compensation, where necessary, and the restitution of the land mortgaged.

Such are the famous 'golden bills' around which furious controversy has raged in the Punjab. Unfortunately the controversy took a communal turn, for it happens that the majority of those who have to restore lands mortgaged before 8th June 1901, are Hindus. The cancellation of *benami* transactions also largely affects Hindus of the non-agriculturist classes. But the bills themselves are not concerned with the religion of the debtor or the creditor. They represent an attempt to give relief to the debtor at the expense of the creditor, and to control money-lending by prescribing heavy penalties for fraud and dishonesty.

From the point of view of the debtors who will have mortgaged lands restored to them, the bills are certainly not 'black.' Whether they can be described as 'golden' will depend on the effect of the bills on the supply of loanable capital in the villages and debtor-creditor relations.

Considering existing conditions and tendencies the bills, by restricting the supply of credit, should hasten the process of 'swallowing up' of the smaller by the bigger agriculturists. In the long run, the chief benefit from the bills should flow to the non-working landlord.

We may examine this aspect to the agrarian bills in some detail as the greatest confusion of thought prevails on the subject of 'swallowing up.'

In the course of the debate in the Assembly on the Restitution of Mortgaged Lands Bill Sir Sikandar Hayat Khan is reported to have said on July 8:—

"Some members were labouring under the misapprehension that big zamindars were eating up small zamindars in the Punjab. This was far from correct. The Government had collected statistics from Jhang, Shahpur and Multan, three districts where there were the biggest zamindars. It had been found that owing to their extravagance or western style of life big zamindars were gradually selling their land to small zamindars. Thus, in this

instance at least, the old saying that big fish eat small fish had been reversed." (Laughter and applause).

The districts which Sir Sikandar Hayat Khan mentioned in his speech in the Assembly are Jhang, Shahpur and Multan. The second investigation carried out by the Board of Economic Enquiry relates to Jhang, Dera Ghazi Khan and Muzaffargarh. It is possible that Sir Sikandar Hayat Khan was referring to the results of a special enquiry regarding sales of land in the districts which he mentioned; the report of this enquiry (if there has been any such enquiry) has not been published. One is therefore, compelled to rely on the Board's report.

Let us consider the evidence for the eating up of the big fish by the small in the three Western districts of the Punjab, Jhang, Dera Ghazi Khan and Muzaffar-garh.

Transactions among Agriculturists. Table 6 (p. 10)
Totals for 1931-32 to 1933-34. Cases.

Sales by	large owners to		small owners to		
	large owners	small owners	large owners	small owners	TOTAL
Jhang	5	3	11	580	599
Muzaffargarh ..	9	52	106	3,389	3,556
Dera Ghazi Khan ..	16	21	148	3,484	3,669
TOTAL ..	30	76	265	7,453	7,824
Percentage ..	0·4	1·0	3·4	95·2	100·0

It is seen that the total number of transactions was 7,824. Of this total, 30 cases represented the sale of land by large owners to large owners (0·4%) and 76 sales of land by large owners to small (1·0%).

But there are also 265 cases of the sale of land by small owners to large. If we consider the areas sold, small owners purchased 1043 acres from large owners and sold to them 2151 acres, which leaves a net balance of 1108 acres in favour of large owners (p. 7 of the Board's Report).

It would seem that the evidence in favour of the small fish eat-

ing up the big fish in these three Western Districts is not very strong, unless it is thought that the net acquisition of land by large owners at the expense of small owners is a process of swallowing up of the big by the small.

It would be contended that even if the big fish are not being eaten up by the small, there is no evidence to show that the small fish are being eaten up by the big.

The table given above shows that in 95·2 per cent of cases small owners sold their lands to small owners, and only in 3·4 per cent of cases to large owners. Where is the evidence for the swallowing up of the small fish by the large?

There have been two enquiries by the Board of Economic Inquiry, and the results of both enquiries seem to confirm the conclusion that large owners sell to large owners, and small owners to small owners. The results of the first enquiry were thus summed up by Mr. Calvert, who contributed a preface to the first report (Publication No. 23 of the Board).

"A careful enquiry into sales by members of agricultural tribes during the five years 1922-23 to 1926-27 has recently been made and it showed that there was little foundation for the suggestion that the larger owners were buying out the smaller owners to any considerable degree. Small owners buy small plots from small owners, and larger owners buy larger plots from larger owners. The small owner cannot buy the large plot and the large owner does not want the small one. There was no sign whatever that large owners were "swallowing up" the small ones except in the South-Western districts of the Multan Division." *Wealth and Welfare of the Punjab.* New edition, p. 271).

Since, in the case of a few Western districts, Mr. Calvert and the Board found some *prima facie* cause for uneasiness, a more detailed enquiry was undertaken in the three districts of the Multan Division—Jhang, Dera Ghazi Khan, and Muzaffargarh. What did this enquiry show? It showed that there was no cause for uneasiness whatsoever. The report says: "It will be seen that transactions by small men formed 98 to 99 per cent of all transactions examined; taking only those cases where small men dealt with

large men the percentages to the total transactions examined were from 2 to 4." (Report 1938, p. 37).

Let the reader turn again to the table given above. There are 7,453 cases of sales by small owners to small owners, as against 265 sales to large owners. Even if there is no swallowing up of big owners by the small, there is no swallowing up of the small owners by the big!

Who is a small Owner?

For the inquiry, during the period 1931-32 to 1933-34, into sales of land in the three Western Districts, a 'large owner' was taken to mean one who owned, before sale or purchase, 300 acres or more. All those owning less than 300 acres were treated as small owners. Adopting these absurd definitions, the Board was bound to find that small owners sold to small owners and large owners to large. No other conclusion was possible.

Suppose we define a big land-lord as Sir Sundar Singh Majithia defines him—one who pays Rs. 10,000 or more as land revenue, or one who owns more than 6000 acres of land. According to this definition there are only 13 big landlords in the Punjab; all others are small owners. Now if you examine transactions between large and small owners over a short period of four or five years, or in fact, over a longer period, you will find that nearly all the transactions are between small owners. Occasionally one of the Big Thirteen, who has formed extravagant habits, or has adopted the Western style of living, may be obliged to sell part of his estates to one of the small owners, who, we may assume, owns, say, 5,000 acres. It will then appear to our Government that the small fish were swallowing up by the big fish in the Punjab.

Principal J. W. Thomas in his preface to the second report admits that 'different results might be obtained by taking a longer period or by taking another definition for 'large owners' and so on. Of course the results would be different if big and small owners were properly defined.

There is no sense in treating all owners who own less than 300 acres or even 100 acres as small owners in a province where 84·5 per cent of the total owners own less than 15 acres. There

is no sense in lumping together owners of 15 acres or less, who are workers, and owners of more than 50 acres who, as a rule, do not till their own lands, and live on the fruits of others' toil.

That the expropriation of small owners is going on is undeniable. The Board's first enquiry showed that 'as many as 2, 134 or 36·9 per cent of the vendors sold off the whole of their land and became landless' (p. 11). According to the second enquiry in Western districts, in 2, 260 cases, which represent 21 per cent of the cases dealt with, the vendors sold all their land. The total acreage sold off was 13, 410, or 26 per cent of the total area. The cultivated area was 5, 525 acres or 24 per cent of the total cultivated area (p. 23).

In his *Wealth and Welfare of the Punjab* Mr. Calvert says:

"There is on means of arriving at the number of owners who have been expropriated in recent years. But of the 50 to 60 thousand sale transactions that have been completed every year for the last twenty years, a certain proportion must represent the fall of ancient owners to the position of tenants. It is no answer to say that there have been corresponding additions to other holdings. It is of little moment whether the well-to-do adds a few acres to an estate already large enough for his support in comfort. It is of considerable importance that tenants and owners of uneconomic holdings should be able to look forward to acquiring lands, or at least secure a hereditary right in land as a reward of thrift" (p. 232, new edition).

What are the chances to-day of tenants' or the smaller peasant proprietors' acquiring land? None at all. On the other hand the steady increase in the number of sale transactions from quinquennium to quinquennium suggests that holdings which were economic before are becoming uneconomic, and that many a small peasant proprietor is being bought out by larger landholders. This is the process of 'swallowing up' of the small fish by the bigger fish.

The following table relating to the sales of land in the Punjab shows the number of transfers and the area transferred:

SALES OF LAND IN THE PUNJAB

Average of 5 yrs. ending	Number of transfers	Area transferred in 1000 acres Total	Cultivated
1901	49,096	290	163
1906	39,682	228	136
1911	43,430	217	122
1916	52,078	237	140
1921	51,289	209	126
1926	57,140	213	127
1931	64,649	213	138
1936	74,407	203	129

The number of transfers has increased very rapidly since 1930-31. This is shown below:

Year	Number of transfers	Area transferred in 1000 acres Total	Cultivated
1930-31	60,855	182	117
1931-32	62,363	184	110
1932-33	73,180	193	141
1933-34	76,524	191	119
1934-35	78,601	218	135
1935-36	81,366	229	143

The number of transfers in 1935-36 constitutes a record. It is a little more than double the number of transfers in the quinquennium ending in 1906.

Mr. Calvert speaks of 50 to 60 thousand sale transactions every year. It would be more correct to speak of 70 to 80 thousand sale transactions every year at the present time.

What is the explanation of the sudden increase in the number of transfers since 1930-31? A cause which readily suggests itself is the heavy fall of prices which has increased the burden of debt, made it difficult for the small holder to pay Government dues, and made it increasingly difficult for him to keep his body and soul together. Of course by the small holder I do not mean the non-working landlord living on *batai*. I mean generally those owning

less than 15 acres (84·5 per cent of the total number of owners in the Punjab) and specially those owning less than 5 acres (58·3 per cent of the total number of owners in the Punjab).

The fall of ancient owners to the position of tenants is taking place every day. We may ignore this fact; we may pretend to think that small owners sell only to small owners, since small owners own from less than 5 acres to less than 300 acres! All that is pure humbug which deceives no one, except those who want to be deceived.

The buying out of the smaller peasant proprietors by the bigger (those owning from, say, 15 to 50 acres) is not a matter of indifference. At best it implies that those who lived in comfort before are living in greater comfort to-day—at the cost of others who have been expropriated. What is still more serious is the transfer of land from the worker, who earned his bread by the sweat of his brow, to the non-worker who lives on *batai*.

Nobody in our province is luckier than the non-working landlord and no one whose lot is harder than that of the tenant-at-will. The non-working landlord in the Punjab is not interested in either the land or his tenants; his sole concern is his share of the gross produce. Mr. Calvert says:

"An English landlord is his tenant's best friend and spends fully one-third of his rental upon the land and its needs; most Punjab landlords levy double the rent an English landlord would do and spend practically nothing back on the land; indeed, if consideration be paid to all that an English landlord provides in the way of buildings and equipment, then his rent is but a fraction of that found general in India" (p. 191, loc. cit.)

Here is a compliment to Punjab landlords paid by one of the best friends of the agriculturist and almost an enemy of the non-agriculturist. Is Mr. Calvert right?

Mr. Calvert has also called attention to two great changes in the Punjab during the past 80 years: "a marked increase in both proportion and acreage of land under tenants and the almost complete substitution of the old cash rents for the share (batai) system"

(p. 197 loc. cit.) The increase in the area under tenants-at-will is shown below:—

LAND UNDER TENANTS

Year		Land under tenants at-will. 1000 acres	Total cultivated area (1000 acres)	Land under tenants as a percentage of total cultivated area
1892-93	..	9,026	22,500	40
1902-03	..	11,133	25,780	43
1916-17	..	12,450	28,034	44
1921-22	..	13,245	29,370	45
1931-32	..	14,399	29,913	48

From 40 per cent in 1892-93 the land under tenants-at-will has increased to about 50 per cent now. What are the causes, peculiar to the Punjab, of the increase in tenancy? In Mr. Calvert's own words " larger holdings of some and too small holdings of others; the large land-owner lets practically all his area on rent, while the petty owner tries his best to add to his holding by taking land on rent " (p. 197).

The smaller peasant proprietors are hard to distinguish from tenants. An irrigated one-plough holding means about 10 to 14 acres. It is obvious that when the great majority of peasant proprietors own less than 5 acres, in order to make up a one-plough holding, they will be forced to take more land on rent. It not infrequently happens that the rent which has to be paid for the land taken on batai absorbs a considerable proportion of the earnings from the plot owned.

What has led to the substitution of grain rents for the old cash rents? The greed of the non-working landlord. In a period of rising prices the landlord gains if the rent is paid in the form of produce, for his share automatically increases in value with the rise in prices. What right has the parasitical landlord to share in the increase in the value of the produce? It would be best to give the answer in Mr. Calvert's own words:

" In the Punjab the larger landlord is a rent receiver pure and simple and spends little, if anything, on the land, so that his right to

an automatic increase of rent on account of good seasons, higher prices or better cultivation, is not clear" (p. 198-9).

It goes without saying that batai is a heavy tax on the industry of the worker. What inducement has the tenant to work harder or to make improvements when the landlord, without moving his little finger, will share to the extent of one-half in the resulting increase in produce?

Both the increase in the transfers of land and the tenancy point to the conclusion that the poorer proprietors are being expropriated by larger landslords.

The speed of such expropriation as was revealed by the second report of the Board of Economic Enquiry relating to three Western districts, has been calculated in an appendix to the report. Referring to this the Director of Information in his press note said:

> "It was calculated that if the tendency disclosed by this infinitesimal gain were to persist *and there were no other tendency to the contrary* (Director's italics) the small landholders would take about five centuries to be 'swallowed up' by big landlords when all land would be consolidated in the hands of the latter."

We remember that small landholders mean all those owning less than 300 acres. Suppose small landholders were so defined as to include all owners who pay less than Rs. 1,000 as land revenue (according to the Punjab Premier big landlords are those who pay more than Rs. 1,000 as land revenue, or own over 600 acres). How long would big landlords then take to 'swallow up' small men? More than five centuries. There is therefore no cause for alarm in the increasing number of transfers, or in the increase of tenancy.

The owners who sold all their land were 2,260 (21 per cent. of 10,605 cases examined, that is, an average of 753 per annum (1931-32 to 1933-34). "This means," says the report (p. 38), that in 14 years all the 10,605 owners would become landless." This appears startling, but it may be recalled that "96 per cent of the cases are of transactions among small men only"—that is, small owners of from 5 acres or less sell to their own class, that is, to other 'small' owners owning 50, 100, 200, or up to 300 acres.

What some small men lose other 'small' men gain. There is nothing to worry about. A further source of comfort is found in the wise reflections contained in the Board's Muzaffargarh Village Survey (p. 38):

"Very small holdings do not provide a living, and their alienation by sale may not be a substantial loss to the owners. In fact it may free them for employment elsewhere, although the opportunity to move out of the district is seldom taken. Those who remain tied to extremely uneconomic holdings only add to their debts and misery."

This, at any rate, is honest reasoning which one can understand. It is admitted that very small holdings do not provide a living. The owners of these very small holdings have no hope of acquiring more land—they lack the means of doing so. They are, therefore, forced to sell out. We do not say that they are 'swallowed up' by the bigger fish, but that having parted with their lands, they are 'freed' for employment elsewhere. Now this employment 'elsewhere' is not easy to find, and the inevitable result is the fall of ancient owners to the position of tenants.

As regards the speed of expropriation the Board's second report says:—

"Further the Note gives only one side of the picture; *viz.*, only land sold has been taken into account, and the number of transactions examined have been taken as being by so many different persons, since no names are given in the forms, only the castes and tribes of the sellers and buyers being mentioned. It would therefore be advantageous if all the land transactions of all the owners in a very few selected villages in the three districts were examined for the previous ten or fifteen years. This will show the rate at which owners enter into sale transactions, and it would then be possible to work out with some exactitude the speed of expropriation of small owners by large owners" (p. 38).

It is of the greatest importance that such an inquiry be undertaken in these and other districts by a public committee. The chief objects of the inquiry should be to determine (*a*) the classes of small holders who are selling out, (*b*) the classes of larger

landlords who are buying out the smaller owners and (c) the causes of sales.

Summary

1. When it is stated that the bigger fish are swallowing up the smaller it is not meant that the biggest fish are swallowing up the smallest. The number of 'monster' fish in the Punjab, those owning over 6,000 acres or paying Rs. 10,000 or more as land revenue, is 13. The average area sold per transaction in the Punjab is about 2½ acres total and 1½ acres cultivated. It stands to reason that the average seller will not go in search of the biggest fish to be 'swallowed up.' It also stands to reason that when 'monster' fish want to buy or sell land, they do not start a hunt for the smallest fry.

2. But there is swallowing up of the smaller by the bigger fish in the sense that well-to-do peasants are acquiring the lands of poorer peasants and non-workers living on batai the lands of workers.

3. That well-to-do workers, who have already enough land, should buy out the poorer proprietors, is not a matter of indifference.

4. That the non-worker, who lives on batai, should add to his possessions at the cost of the worker is still more objectionable.

5. The steady increase in the number of sale transactions during the past 35 years, and particularly the rapid increase since 1930-31, combined with the increase in the proportion of the land under tenants, unmistakably show that many ancient owners have become tenants.

6. No light is thrown on this tendency by the investigations made by the Board of Economic Enquiry. The conclusions of the Board are of very little value.

7. This is because of the definitions of 'large' and 'small' landholders adopted by the Board. These definitions make no distinction between poorer and well-to-do proprietors and between the worker and the parasite.

8. The reader is cautioned in the preface to both reports

that the results might be different if another definition of large owners were adopted. They must be different.

9. A fresh, more detailed and more comprehensive enquiry is needed to investigate the facts regarding the swallowing up of the smaller fish by the bigger in different districts of the Punjab.

LANDLORDISM

In arguing the case for the control of batai before the Punjab Land Revenue Committee, the present writer urged that the tenant was entitled to wages of decent living "By what law?" asked the Chairman. No law guaranteeing even the barest living wage to the tenant exists. Existing legislation is not concerned with the well-being of the tenant.

This is an extremely unsatisfactory state of affairs, as unsatisfactory as the situation which permitted the exploitation of the peasant by the money-lender. The money-lender's loot was based on the power of capital; that of landlords is based on the privilege of property.

The Punjab Government have broken the power of the non-agriculturist money-lender. But a socialist Government will have little respect for the privilege of property, particularly when it exposes the 'have nots' to merciless exploitation by the 'haves'.

Two examples are given below to illustrate this exploitation.

The first is the Risalewala Government Farm in the Lyallpur District. It is a large farm of 800 acres, managed by Government experts. The tenants pay no land revenue but the whole of water-rates:

RISALEWALA FARM, LYALLPUR. 1930-31 TO 1934-35

	Total Net income	Landlord's net income	Tenant's net income
	Rs.	Rs.	Rs.
1930-31 ..	14,897	13,398	1,499
1931-32 ..	19,918	13,283	6,635
1932-33 ..	30,990	20,197	10,793
1933-34 ..	22,411	15,188	7,223
1934-35 ..	25,621	15,898	9,823
Total ..	1,13,937	77,964	35,973
Average ..	22,787	15,593	7,195
Proportion %..	100	68·4	31·6

In the five years, 1930-31 to 1934-35, the total net income of the farm was Rs. 1,13,937, of which Rs. 77,964 was claimed by the Government landlord, leaving Rs. 35,973 as the earnings of about 40 tenants. The average annual earnings of tenants thus amounted to Rs. 7,195, as against the landlord's annual gain of Rs. 15,593. The share of the landlord in the net income of the farm (68·4 per cent) was more than double that of the tenant (31·6 per cent).

Attention was first drawn to the contrast between the income of the landlord and the tenant on the Risalewala Farm by Mr. H. R. Stewart (at present Director of Agriculture, Punjab), then Prof. of Agriculture Lyallpur, in publication No. 12 of the Board of Economic Inquiry, Punjab ('*Some Aspects of Batai Cultivation in the Lyllpur District of the Punjab*'). Mr. Stewart thus concluded his examination of the accounts for the year 1923-24: "Whilst the tenant profits on an average to the extent of Rs. 19 per acre in return for his labours, the landlord reaps Rs. 30. It is not the object of this paper to criticise the contrast but to determine it.' (P. 7).

The reader must not forget that the Risalewala Farm is not a typical farm. Of all the farms included in the *Punjab Farm Accounts* the Risalewala Farm shows the highest net income. Conditions for tenants, hard as they seem to be, are still more favourable on this Government Farm than on private farms.

A Private Farm

As an example of private farms we may take a farm of 27·3 acres in the Lyallpur District (Chak No. 248 R. B. *See Punjab Farm Accounts*).

Farm of 27·3 Acres. Lyallpur District

	Total net income Rs.	Landlord's net income Rs.	Tenant's net income Rs.
1930-31	340	401	— 61
1931-32	764	552	212
1932-33	224	230	— 6
1933-34	394	296	98
1934-35	821	493	328
Total	2,543	1,972	571
Average	508	394	114
Proportion per cent ..	100	77·5	22·5
Land revenue paid in 5 years	930	465	465
Net income, 1930-31 to 1934-35 deducting land revenue ..	1,613	1,507	106
Average	322	301	21
Proportion per cent ..	100	93·4	6·6

Ignoring land revenue, of the total net income of the farm, 77·5 per cent went to the landlord on an average during the five years 1930-31 to 1934-35.

Deducting the land revenue paid by the landlord and the tenant (half and half) the landlord reaped Rs. 1,507, while the tenant earned Rs. 106 for his labour during these five years. The average annual income of the landlord was Rs. 301, while the tenant earned Rs. 21 annually as the reward for his labour.

The tenant's family included four adult males, all workers. Earnings per worker amounted to Rs. 5-4 annually. This was the workers' reward, on an average, for honest toil for a year.

It is seen that of the total net income of the farm, deducting land revenue, 93·4 per cent was claimed by the non-worker. The tenant starved.

Is this just?

It must be admitted that the privilege of property subjects the have nots ' to fearful exploitation by the ' haves '.

It will appear that the working peasant is exploited not only by the money-lender but by others as well. There is a difference between exploitation by the money-lender and that by the non-working landlord. It is due to the difference between land and capital as agents of production. Land is a free gift of nature, while capital is not. A price must be paid for the loan of capital, or interest cannot be abolished; rent of land, on the other hand, is a wholly unnecessary payment. The abolition of rent will not cause land to disappear; but the abolition of interest will affect the supply of capital.

Interest is paid in socialist Russia to depositors and bond-holders in that country. Payment in kind is made by collectives for farm machinery borrowed from the State. The loan taken from a money-lender ultimately takes the form of tools and implements. It is immaterial whether a loan for productive purposes is made in the form of money or directly in the form of tools and implements; it is also immaterial whether interest is paid in kind or money.

There is a curious unwillingness on the part of the Punjab Government to recognise forms of exploitation other than those associated with money-lending. Whilst the most stringent measures are devised for the benefit of money-lenders, the non-working landlord is left alone, although he exacts a payment several times greater than the land revenue, for no services rendered either to the land or to the tiller of the soil.

Landlord Rights

Under Hindu and Mohammadan Kings the State was not the universal landlord. It recognised rights of property in land. In the Report on the Revised Settlement of the Montgomery District (1871-76) it is stated (p. 211):

" It must always be remembered that under native rule no such thing as absolute proprietary right was recognised. The missing class was not the hereditary tenant but the proprietor."

The proprietor, however, existed. Commenting on this view, E. B. Steedman, Settlement Officer, says in his Report on the Revised Settlement of the Jhang District (1874-1880):

"It is difficult, perhaps impossible, to define with any accuracy to what extent the rights of property in land did exist, but they were certainly not extinct. The ruling power was not an all-powerful landlord, and all the subjects, except those enjoying special privileges, merely tenants-at-will. That some rights of transfer and mortgage were possessed and exercised during the reigns of the later Syal Khans, is abundantly proved. Many undoubted genuine deeds have been produced in land cases during this Settlement" (p. 64).

Proprietorship in the Punjab under the Sikhs meant cultivating proprietorship. The land revenue demand was heavy. There was therefore a tendency to ignore non-cultivating proprietors and to recognise the cultivator as proprietor. The State might grant jagirs for services rendered to the State, or to holy men. But the revenue which privileged persons enjoyed was not an additional charge on the cultivator; it was a remission of revenue due to the State. Generally speaking, then, only two parties shared in the produce of the land: the State and the cultivator.

Under Akbar there were no intermediaries because Akbar wanted all the revenue for the State, except that portion of it which jagirdars and others were permitted to enjoy on behalf of the State. And such was the position under Sikh rule. In the territories governed by Diwan Sawan Mal any one who broke up new land, or began to work a deserted well, became the proprietor of that land and liable to pay the land revenue. "In practice," writes Mr. E. B. Steedman (loc. cit. p. 69), "the Diwan held that no man had any right to any land that he could not cultivate, and grants of waste land were given to any body who could bring it under cultivation. Not only did this take place, but many persons who had formerly been tanants-at-will found themselves invested with the doubtful privilege of paying direct to the State. The proprietors dropped out because there was no room for them."

The privilege of paying direct to the State was doubtful because the State's demand was heavy.

"The State," continues Mr. Steedman, "took every thing it could from the cultivator, and the idea of a middleman intercepting part of the collection was not for a moment entertained."

The new proprietors belonged to every class. "Nothing," Mr. Steedman tells us, "was sacred to Sawan Mal. Churas and kamins were in his eyes just as good proprietors, probably better than Syals and Beloches. There were then no boundaries. The Syals retained what they could cultivate. The waste was occupied by Sawan Mal's colonists" (Loc. cit. p. 69).

The old proprietors may not have dropped out completely, but it is clear that under such conditions they could not prosper. A new class of proprietors arose, those who cultivated the land. That may probably account for the comparatively large number of peasant proprietors in the Punjab.

The existence of intermediaries today, who have nothing to do with the cultivation of the land and who live on the fruits of others' toil, is largely due to the British Government. The Report on the First Regular Settlement of the Muzaffargarh District (1873—1880) by Edward O'Brien, Settlement Officer, gives an interesting instance of superior proprietors being formed by the direct action of the British Government. A number of Pathans had settled in the Muzaffargarh District under the Afghan governors of Multan. They enjoyed grain allowances, called *kasur*, which were not a tax on cultivators but were paid out of the Government's share of the produce. The Sikhs took Multan in 1818 and the Pathans fled. In 1848 they returned to help Major Edwards in his operations against Mul Raj. For their services the Pathans claimed restoration. Their claim was conceded and they obtained decrees for *kasur* in various villages under the rules issued by the British Government. The old *kasur* was a deduction from the revenue; the new *kasur* meant the imposition of an additional grain cess on the cultivators. The Deputy Commissioner reported in 1853 that the new *kasur* had "paralyzed the industry of the cultivators" (p. 93). He protested again in 1859 instancing

villages that had been ruined by that policy. "The result was," says the Settlement Officer, "that in some villages the Pathans succeeded in ousting altogether the inferior proprietors [Sawan Mal's cultivating proprietors]; in others they reduced them to the position of tenants-at-will." In still other cases the Pathans settled down as superior proprietors with the right, enforceable by law, to exact *ḳasur*.

These are unpleasant facts, but they are of some importance as showing the origin of landlord rights in particular cases, and also how cultivating proprietors may disappear altogether, or be turned into tenants-at-will.

The State having called useless intermediaries into existence, may at least limit their demands.

CHAPTER XXI

AGRARIAN LEGISLATION, OTHER PROVINCES

Werner Sombart in his *Deutscher Sozialismus* enumerates no less than 187 varieties of socialism, many of which are not mutually exclusive, including Marxian socialism, which is socialism of the industrial proletariat (pp. 65-67). And yet one would search this long list in vain to find the type of socialism represented by the Punjab Government—caste socialism.

The Punjab Government have protected statutory agriculturists from exploitation by non-agriculturists. Agriculturists and non-agriculturists in the Punjab are distinguished by caste, not necessarily by occupation. One may be a Minister of Government, an Advocate, or an Engineer, and may have never so much as touched a plough, but still, in virtue of being born in a particular caste, be a good agriculturist.

The caste socialism of the Punjab Government recognises no exploiter but the non-agriculturist money-lender. It is undeniable that the money-lender has sinned grievously, and yet, as we have seen in the preceding chapters, he renders a service, and is indispensable. There is every justification for compelling the money-lender to keep regular accounts, to register himself, to take a license for practising his profession, and for punishing him when he tries to over-reach his clients. And yet (and this is the experience of the whole world), it is impossible to control the rate of interest except through the channels of supply and demand.

Much worse than the money-lender as an exploiter is the non-working landlord, for the latter exacts a payment from the worker for no services at all. The socialism of the Punjab Government turns a blind eye to the exploitation of the tenant by the non-working landlord.

When the attention of Government is drawn to the exploitation of the smaller by the bigger agriculturists, the Government are ready to find excuses for the bigger agriculturists. In the first

place, it is argued, there are no big landlords in the Punjab, only 13 out of 35 lakhs. A big landlord, according to the Revenue Minister (Sir Sundar Singh Majithia) is one who pays more than Rs. 10,000 as land revenue. Secondly, if reference is made to the buying out of the smaller by the bigger land-owners, we are told that in the Punjab it is the small fish that are swallowing up the big! If one agrees to the definition of a big land-owner as one who owns more than 300 acres, one is bound to discover, as we have done, that the great majority of sale transactions take place between small owners.

The terms 'big' and 'small' are relative. The Risalewala Government farm of 800 acres is a very big farm according to Punjab standards, but it is a small farm as compared with Soviet farms of 5,000 acres.

There will never be any agreement in regard to the definition of a 'big' lanlord. But the distinction between an agricultural worker and a non-worker is clearly marked. In the Punjab, very generally, one who owns fifty acres or more does not cultivate the land himself. He lives on the produce of others' toil.

The number of land owners in the Punjab who own 50 or more acres is 121,000 out of 35,00,000. The number is small—3·7 per cent of the total. But the percentage by itself is of little significance—it is even misleading. In England, dutiable estates of over £50,000 net value in 1934-35 were only 1 per cent of the total number of estates, but they represented 36·48 per cent of the total value of estates (Cole, *The Condition of Britain*, p. 75). The number of those who own fifty or more acres becomes significant when we learn that they own 25·7 per cent, or a little more than one-fourth of the total land.

The occupancy tenants in the Punjab are of comparatively small importance. Tenants-at-will, without any right of occupancy, cultivate 48 per cent of the total land.

The plight of these tenants (as we have seen) is miserable. On an average of good, bad and indifferent years, over 80 per cent of the net income from the land goes to the landlord. The tenant-at-will literally starves. He has no hope of acquiring hereditary

rights of tenancy. And no one has thought of regulating the rent he pays, or limiting the exactions of rapacious landlords.

The socialism of the Punjab Government is reconcilable with shamless exploitation of the tenant by the landlord. Why? Because the castes of the exploiter and the exploited are the same. Caste socialism affords the expoited agriculturist protection against the non-agriculturist exploiter, but not against exploitation by a non-worker of a statutory agriculturist tribe.

At the end of the year 1938 a Congress Member of the Punjab Assembly (Mian Iftikhar-ud-Din) gave notice of a bill to amend the Punjab Tenancy Act, 1887. It was proposed in the amending Bill (1) to confer the right of occupancy on a tenant who had been continuously cultivating the same land for a period of six years or more immediately preceding the 1st of October, 1938 (2) to charge the landlord with the duty of paying the whole of the land revenue and the water-rates, (3) to free tenants from the burden of all other payments, except the legitimate expenses directly relating to the cultivated land.

The attitude of our Government toward tenants is shown by the fact that leave to introduce the bill was refused! The subject may not even be discussed in the Punjab Assembly! Of course there is not slightest chance of such a bill being accepted by an Assembly dominated by non-working landlords, and led by Ministers who are, some of them, big landlords themselves.

In the rest of the chapter we shall study the action taken in other Provinces, chiefly Bihar and the United Provinces, to safeguard the rights of tenants. Congress Government are not socialist ,and yet the socialist Government of the Punjab may take a leaf out of their book.

The Bihar Government has enacted measures for the protection of the rural borrower (the Bihar Money-lenders' Act, 1938; the Bihar Money-Lenders' (Amendment and Application to Pending Suits) Act, 1938. But it has not forgotten the tenant. In fact the most important agrarian measures enacted in Bihar are those relating to the reform of tenancy. Those measures are five (1) The Bihar Tenancy (Amendment) Act, 1937; (2) The

Chhota Nagpur Tenancy (Amendment) Act, 1938; (3) The Bihar Tenancy (Amendment) Act, 1938; (4) The Champaran Agrarian (Amendment) Act, 1938; and (5) The Bihar Restoration of Bakasht Lands and Reduction of Arrears of Rent Act, 1938. In noticing these measures, we shall closely follow the 'Resumé' of Legislative Measures' issued by the Information Officer, Government of Bihar.

It is explained in the 'Resumé' that the tenancy law of Bihar was in some respects already in advance of the tenancy law as it obtains in the neighbouring United Provinces.

For example, in Bihar a raiyat who cultivates land in a village for 12 years becomes a settled raiyat of that village. Every settled raiyat acquires right of occupancy not only in respect of the land he has so cultivated for 12 years but also in respect of all other lands of which he may come into possession as a tenant. An occupancy holding is heritable without having to pay any premium to the landlord and also transferable subject to payment of Salami (landlord's fee) amounting to 8 per cent of the consideration money. An occupancy raiyat cannot be ejected from his holding for non-payment of rent or for any other reason except that he has rendered the land unfit for cultivation. He is entitled to dig wells or tanks in his holding, to erect a house on it, to make bricks for such house and to plant and cut trees on the holding. The only right the landlord has is to get his rent, for the arrears of which he is entitled to sue the tenant in a civil court and bring the holding to sale in execution of his decree or get his movables attached or the debtor imprisoned just as any other creditor can. This was the position before the amendment of the law by the present Government.

All cultivators pay rent to their landlords. Rent is paid in cash or in kind. Cash rent is prevalent in most of the districts of the province, while rent in kind is paid largely in the districts of Patna, Gaya and parts of the district of Monghyr.

Rent Reduction

Where batai was prevalent it was customary to divide the crop half and half, or 22 seers in a maund (*i.e.* 11/20th) to the landlord and 18 seers in a maund (*i.e.*, 9/20th) to the tenant. This ratio has now been reversed and the share of the landlord in the produce shall in no case exceed 18 seers and that of the tenant shall not be less than 22 seers in a maund.

By the new law any tenant who is dissatisfied with his rent in kind is given the right to get it commuted into cash rent. A court is now bound to commute the rent on the application of a tenant but not so on the application of a landlord.

The new Act provides for:—

(1) the cancellation of all enhancements between January, 1911 and December, 1936.

(2) the reduction of all rents commuted between January, 1911 and December, 1936 in the same proportion in which the prices have gone down;

(3) total or partial remission of rent in cases where the soil has deteriorated.

(4) reduction of rent where there has been a fall in the average local prices of staple food crops (not due to a temporary cause) during the currency of the present rent; and

(5) settlement of fair rent in other suitable cases.

Provision has thus been made for reducing rent to such an extent that the reduced rent shall bear to the previous rent the same proportion as the current prices bear to average prices during the decennial period immediately preceding the commutation.

When land has been lost on account of floods, the rent will be abated in whole or in proportion of area so lost to the area of the whole holding. But the tenants' right in it will subsist and he will be entitled to immediate possession after reformation on the same rent as was payable before.

Transfer of Occupancy Holdings

Unrestricted right of transfer of occupancy holdings has been conceded. No *Salami* (landlord's fee) need now be paid by a transferee to get his transfer recognised. The landlord is bound to mutate the transferee's name in his papers if only the transferee pays a nominal registration fee.

In the case of transfers made before 1923, even notice is not necessary, not is it necessary to pay any registration fee at all.

Under the old law a landlord was not bound to recognise any division of a holding or a distribution of its rent between the co-sharers. Even when he did recognise such a division or distribution, he did it only after he was paid a heavy *Salami*. In this respect too the law has been changed. Co-sharers may now freely partition their holdings and distribute between themselves the rents of such holdings. The landlord is now bound to recognise all such divisions of holdings and distribution of rents.

Under the old law whenever a raiyat defaulted in paying rent he was liable to pay damages which would go up to a sum equal to 25 per cent of the total amount of rent in default, or interest calculated at the rate of 12½ per cent per annum. These damages have now been abolished and the rate of interest has been substantially reduced from 12½ to 6¼ per cent per annum.

A raiyat has now been given complete immunity against arrest and detention in civil prison in execution of a decree for rent. Even his house and movables cannot be attached and sold in execution of such decrees.

The law as it existed enabled the Provincial Government to authorise the landlord to distraint the crop of a tenant in certain cases without the intervention of a court. This drastic power has been repealed and the Provincial Government have now taken power in their own hands to lay down regulations for the realisation of rents in special cases—cases in which, in the opinion of the Provincial Government, rents cannot be realised by the ordinary procedure.

Illegal exactions by landlords or their agents have now been made a penal offence punishable with imprisonment which may

extend to six months or with fine which may extend to Rs. 500, or with both.

PROBLEM OF LANDLESS LABOURERS

Another class of tenants known as under-raiyats had no right to acquire occupancy rights in their raiyati holdings. The new Act enables them to acquire occupancy rights if they have cultivated the land for 12 years as under-raiyat, and an under-raiyat having such occupancy right enjoys rights similar to those of an occupancy raiyat in respect of trees, bamboos and use of and succession to and eviction from his land.

RESTORATION OF LANDS SOLD FOR ARREARS OF RENT

On account of the economic depression which began in 1929 many raiyats were unable to pay the rents of their holdings. The result was that innumerable holdings were sold in execution of decrees for arrears of rent and were purchased by the landlords, in most cases, for grossly inadequate prices. An amendment made in the tenancy law with a view to reducing rents could be of no avail to those whose holdings had already been sold up, or whose arrears had accumulated on account of their inability to make payments. For the relief of such persons special legislation was necessary, and the Bihar Restoration of Bakasht Lands and Reduction of Arrears of Rent Act was, therefore, enacted for the purpose.

The Act provides that (*a*) All lands sold between January, 1929, and December, 1937 are to be restored to their respective raiyats on the latter paying for such restoration an amount equal to 50 per cent of the sum for which the lands were sold and of the cost necessarily incurred by the landlord in obtaining delivery of possession;

(*b*) Such land shall not be restored if they were settled in good faith with a third person before the 22nd March, 1938, or in certain cases, before the 19th April, 1938.

(*c*) If the rent of a land sought to be restored was settled, commuted or enhanced after the 1st January, 1911, the whole of such land is liable to be restored.

(*d*) If the area of the land in possession of the landlord and liable to be restored is less than the area which the raiyat is entitled to claim, the whole of the area in possession of the landlord and liable to be restored shall be restored;

(*e*) The amount payable for restoration may, if the Collector so directs, be paid in easy instalments which may extend over a period of five years; and

(*f*) If the raiyat fails to pay the instalments for two years he may be ejected by the Collector, but if the instalments in default relate to the last two years of the period of instalments, the raiyat is to be given a further opportunity of paying up the instalments in arrears before he is ejected.

Provision has also been made for reduction of arrears of rent.

SPECIAL TENANCY LEGISLATION

The Champaran Agrarian (Amendment) Act and the Chhota Nagpur Tenancy (Amendment) Act have been passed with a view to meet special needs in the matter of tenancy legislation in local areas.

So far as Champaran is concerned, the history of the inequitous enhancements commonly known as the "indigo enhancements" is well known. A Government Committee made certain recommendations on the basis of which the Champaran Agrarian Act was passed in 1918. This Act made substantial reductions in the enhancements, but even these reduced enhancements were sufficiently heavy and extremely unpopular. The present Government have, therefore, enacted new legislation to cancell all the indigo enhancements howsoever made.

In Chhota Nagpur it has been provided that where a raiyat converts land into *Korkar*†, he shall not be liable to pay any rent for such land until after the expiration of a period of four years from the end of the agricultural year in which the first crop is harvested.

† Lands which have been converted from uplands, jungle or waste with lowlands by terracing or embanking.

UNITED PROVINCES

A very comprehensive tenancy bill was introduced in the U.P. Assembly by Government in 1938. The bill is under discussion and since numerous amendments (about 2,000) have been proposed, it will be some time before the bill is placed on the Statute-book.

It contains provisions regarding *Sir* (home-farm); devolution, transfer, extinction, merger, division and exchange of tenancies; determination and modification of rents; payment and recovery of rent; distraint; ejectment; arrears of revenue; and numerous other matters. It has aroused the bitterest opposition on the part of landlords. An assurance was given to landlords by the Premier of the United Provinces that the Government believed in the Zamindari system being retained, and recognized landlord's right of ownership. But according to the critics of the Bill: "There is not a single provision in the Bill which does not greatly curtail the rights of the zamindars, while even the fundamental rights of the zamindars are attempted to be taken away, leading almost to the expropriation of the class in a subtle and clever manner". (Note of dissent to the report of the Select Committee on the Bill by Nawab Sir Muhammad Yusuf).

It is laid down in the Bill that the rate of rent must not exceed one-fifth of the produce of the holding. At present, under the batai system, one-half of the produce goes to the landlord. The zamindars in U.P., it seems, would be satisfied with one-third of the value of the produce as their share.

The Bill, according to landlords, apart from reducing rent, would so slacken the methods of realization of rents through processes of ejectment, and so complicates the methods of distraint that it would be practically impossible for landlords to pay Government revenue in time. Ejectment would be made more difficult, or in the opinion of the critics, the Bill would encourage tenants not to pay the rents due.

It is difficult to predict the final form in which the Bill would become an Act. The strongest opposition is to the clauses relating to *Sir*. There were three main questions relating to *Sir*:—(1)

whether zamindars should in future have the right to add to their *Sir*, (2) whether all the present *Sir* should remain *Sir;* and (3) whether in any circumstances tenants of *Sir* should become hereditary tenants.

The majority of the Select Committee took the view that the smaller landlords should not be deprived of their existing rights in *Sir*, for in some cases it is practically their only source of income But the case of the larger landlords paying more than Rs. 250 as land revenue was different. In their case some reduction of the *Sir* area was justifiable. No limit has been fixed as to the amount of *Sir* of an individual proprietor. But in the case of larger landlords (those paying more than Rs. 250 as land revenue) who have let their *Sir* to tenants, it has been provided that, subject to certain restrictions, all their tenants of *Sir* should become hereditary tenants, and that their holdings should cease to be *Sir*.

A limit, 50 acres, has been fixed below which the *Sir* of a larger landlord should not be reduced by the grant of hereditary rights to his tenants of *Sir*. The object in reducing the *Sir* area is to reduce the area in which tenants will be deprived of hereditary rights. Further, it was desirable that tenants of the land which will remain *Sir* should be given some security of tenure. It has been provided that persons who are tenants of *Sir* at the commencement of the Act and who do not acquire hereditary rights, or are later admitted as tenants of *Sir*, shall be entitled to retain their holdings on the same rent for a period of 5 years.

Curtailment of *Sir* rights of larger landlords is naturally resented by the landlords concerned. In this connection two dissenting landlord members of the Select Committee (Messrs Bisheshwar Dayal Seth and Jagan Nath Baksh Singh) thus complain of the 'great injustice' done to those who pay over Rs. 250 as land revenue:—

" *Sir* is a right which zamindars greatly value. Not even the most tyrannical of rulers when they arbitrarily confiscated estates or sold them up, ever deprived proprietors of their *Sir rights*. Yet under the proposals contained in the Tenancy Bill landlords are to be deprived, by a piece of retrospective legislation, of land which

has, in many cases been held for generations as *Sir*, if, for some reason or other, it happened to be sub-let in 1937. In such land, no matter for how long he had held it, the tenant never considered that he had acquired any right at all and he knew that he was liable to ejectment any day at the will of the landlord. Similarly the landlord never had any apprehension that he might be deprived of such land if he let it. It has often happened that, if the landlord has been away from the village in some service or business or profession and there has been no one in the family to look after the cultivation he has let out his *Sir* land to cultivators who took it, knowing full well that they would have to leave it at the desire of the landlord. Is it fair that such a landlord should be deprived of his *Sir* rights?"

It may be explained that *Sir* land is a matter of considerable importance in the United Provinces, not so much in the Punjab. *Sir* exists where the landlord body is distinct from a body of tenant-cultivators. Each (landlord) co-sharer has *Sir*, or his own special home-farm. In the Punjab villages are often held by families, or tribal groups, who own the whole village or the greater part of it. The land-owners are thus not a distinct body from the body of tenant-cultivators. In the United Provinces when an occupancy right is allowed, it does not extend to the *Sir* lands. The new bill for the first time attempts to reduce *Sir* area by the grant of hereditary rights to tenants of larger landlords.

MADRAS

The Madras Agricultural Relief Act, 1938, makes provision for the scaling down of debts incurred before 1st of October, 1932, in the following manner:—

(1) All interest outstanding on the 1st October, 1937, due by an agriculturist, shall be deemed to be discharged, and only the principal, or outstanding portion of the principal shall be repayable.

(2) Where an agriculturist has paid to any creditor twice the amount of the principal whether by way of principal or interest or both, such debt including

the principal, shall be deemed to be wholly discharged.

(3) Where the payment falls short of twice the amount of the principal such amount only as would make up this shortage shall be repayable.

Rate of interest on debts incurred on or after the 1st October, 1932, shall not exceed 5 per cent per annum, simple interest. Debts due to co-operative societies have been excluded from the scope of this Act.

The Act also makes provision for the total remission of arrears of rent under certain conditions. Of this one example may be given. A ryiat or tenant (suppose) was in arrears at the commencement of this Act in respect of rent for *fasli* 1345 and prior *faslis* in the sum of Rs. 500. Rent was also due from him for *faslis* 1346 (Rs. 100) and 1347, also (Rs. 100). The arrears of rent amounting to Rs. 500 would be deemed to be discharged if rent for *fasli* 1346 (Rs. 100) was paid before 30th September, 1938 and rent for *fasli* 1937 before 30th September, 1939.

Bombay

In Bombay by an Act passed in 1938 lands forfeited as a result of the Civil Disobedience Movement for the non-payment of land revenue have been restored. This is a political rather than an economic measure.

A Small Holders' Relief Act was also passed in 1938, which remained in force up to the 31st March, 1939. A small holder was defined as an individual who (*i*) holds land not exceeding 6 acres of irrigated land or 18 acres of other land, or who holds land of whatever description, the total annual agricultural assessment of which does not exceed Rs. 30, and (*ii*) cultivates land himself or is an inferior village servant.

The Act provides for the stay of attachment and sale of dwelling-house, milch cattle, standing crop, household utensils, and agricultural produce necessary for the support of the small holder and his family in execution of decrees.

The Act also prevents landlords from evicting a tenant who has been in possession uninterruptedly from 1st January, 1932 provided the tenant paid the rent due for the year ending with 30th June, 1938, before 15th May, 1938, and was willing to hold the land thereafter on the old terms and conditions.

A Bill, published in the Bombay Government Gazette of the 5th August, 1938, seeks to safeguard the interests of tenants as against landlords.

A class of 'protected tenants' is to be created. A person shall be deemed to be a protected tenant if (*i*) he has held land as a tenant continuously for a period of not less than six years immediately preceding the first day of January, 1938, (*ii*) he has cultivated such land personally, and (*iii*) if his landlord owns 33-1/3 or more acres of irrigated land or 100 or more acres of other land, or land of any description the total annual assessment of which exceeds Rs. 150/-.

Arrears of rent due from protected tenants on the 1st of December, 1938 shall be payable in four equal annual instalments beginning with 31st May, 1939. He cannot be evicted by the landlord unless he makes a default in the payment of any instalment of the arrears, injures the land, or sub-lets it, that is, fails to cultivate it personally.

The rent paid by a 'protected tenant' shall be 'reasonable.' Where a dispute arises Government will intervene and determine the amount of the 'reasonable' rent, taking into account the following factors:—

(*a*) The rental values of lands used for similar purposes in the locality;

(*b*) The profits of agriculture of similar lands in the locality;

(*c*) The prices of crops and commodities in the locality;

(*d*) The improvements made in the land by the landlord; and

(*e*) Such other factors as may be prescribed.

In regard to tenants generally it is proposed to abolish all cesses, rates, taxes, or other payments or services exacted by land-

lords other than the rent lawfully due. Any person who levies any such cess etc. shall, on conviction, be punishable with fine which may extend to Rs. 1,000.

Provision has also been made for suspension or remission of rent. Wherever land revenue payable by a landlord to Government is suspended or remitted, the landlord shall suspend or remit, as the case may be, the payment to him of the rent of such land by his tenant. If no land revenue is payable to Government, but Government has suspended or remitted the land revenue in respect of any other land in the neighbourhood of such land, the Collector may suspend or remit the payment to the landlord of the rent or part of it due in respect of such land.

PART IV

TAXATION INDIAN FINANCE
PROVINCIAL FINANCE

CHAPTER XXII

TAXATION

The taxable capacity of a people is the maximum amount that they can contribute towards the expenses of the State. It is found by deducting from their total income from all sources the minimum amount required for consumption, for replacing old capital and for new additions to capital.

If allowance is not made for the replacement of capital as it wears out and for additions to the country's apparatus of production, industrial efficiency will suffer, which must react on the income-earning capacity of the people. Further, minimum consumption does not mean bare subsistence, or the amount required to keep a worker's body and soul together. Minimum consumption must be interpreted as consumption necessary for efficiency. Taxable capacity, or the taxable surplus is a surplus of production over costs in this sense. J. A. Hobson says:

" I may summarise this analysis of ability to bear in the following general terms. Those elements of income which are necessary payments to owners of productive agents, in order to sustain the productive efficiency of an agent and to evoke its application, rank as 'costs' of production, and have no ability to bear taxation. The standard wages required to keep a working-class family on such a level of efficiency and comfort as will maintain and evoke the regular application of its labour-power constitute labour 'costs'. Such salaries, fees and profits as are necessary under existing social and economic conditions to secure the supply of the requisite amounts of business and professional ability needed for the initiation, organization and management of productive enterprise, must similarly rank as 'costs' of ability or brain-labour. To these must be added, under any system of private enterprise, the minimum interest required to evoke the amount of saving and the application of new capital needed to furnish the plant, tools and materials for the productive processes ".†

In his *Science of Public Finance*, Mr. Findlay Shirras attempted to determine India's taxable capacity and on the basis of

† *Taxation in the New State by* J. A. Hobson, pp. 41-42.

his figures he reached certain conclusions regarding the burden of taxation in India, as compared with that in England, in the year 1922. The figures are interesting. Mr. Shirras found that effective taxation in the case of India in that year was 4 per cent of the gross income as compared with 24 per cent in that of the United Kingdom, and 30 per cent of taxable capacity as against 82 per cent in the United Kingdom. He indeed points out that the figures "must not be interpreted too rigorously"; still the impression that they leave on the reader's mind is that India is, comparatively, a lightly taxed country. We are also often told by propagandist writers, who have never made any study of the subject, that India is the most lightly taxed country in the world.

Now it is almost impossible to make international comparisons of tax-burdens. This is chiefly because the things that we compare are not the same. The economic organizations of two countries like India and England are different: in an agricultural country the flow of production and income is less regular and constant (as it depends on the vagaries of the monsoon) than in a manufacturing country; the systems of taxation are also different: our land revenue, for example, is a peculiarly Indian product, and the Indian income-tax, both in regard to the basis of assessment and the method of assessment, differs from the British income-tax; the levels of income or prosperity in the two countries are not the same, and this vitally affects tax-bearing power; finally, the burden of taxation also depends on such factors as (*a*) the objects on which the income of the State is largely spent and (*b*) whether the proceeds of taxation are spent in the country in which the taxes are raised, or a considerable proportion is spent outside the country, as in the case of India. It will be seen that, apart from the difficulties involved in measuring taxable capacity, international comparisons of taxable capacity must take account of so many different and involved factors, that conclusions based on them, as in the case of India and Great Britain, are scarcely of any value.

In the case of India there is the further difficulty that reliable estimates of national income do not exist. Dr. Bowley and Dr. D. H. Robertson have recently made suggestions regarding an

economic census of India. They were so much impressed by the difficulties of the task, (caused by the lack of reliable and accurate data) that they did not recommend for India at present any estimate of national wealth as a whole. For rural income they have advocated an estimate of the quantity and value of all produce and all services by the method of intensive surveys in selected villages, and for urban areas, in the first instance, surveys of the larger towns. These surveys of selected rural and urban areas will make it possible to estimate national income within certain limits.

It is obvious that where accurate information about the volume and value of national production is not available, any estimae of nationl income must be a guess, more likely to be wrong than right. The conjectural nature of such estimates may be shown by an example. Mr. Shirras estimated the produciton of milk in British India in 1921-22 at 290,665,151 maunds; the value of the milk was estimated at 310,36 lakhs† equal to 15·6 per cent of the total value of all produce.

Now it may be doubted if the number of milch cows and buffaloes in the whole of British India is exactly known. Even if our information on this point is reliable, there is room for great uncertainty and difference of opinion as regards the production of milk in a given year. If lower figures were taken for the production of milk and its value, the amount of national income would fall, and taxable capacity would fall too.

While for reasons stated above, it is impossible to determine the proportion of taxation to taxable capacity in India at present, there is some evidence to show that the proportion is high in the case of the great bulk of the population.

The two chief direct taxes levied in India are the income-tax on non-argicultural incomes, and the land revenue, which operates as a tax on agricultural income. Of these two taxes by far the more burdensome is the land revenue. It is a tax which even the poorest land--owner cannot escape, and it is a tax on the subsistence of the worker.

† *The Science of Public Finance*, p. 140.

THE INCOME-TAX

In England total income, assessable income and taxable income mean different things.

The assessable income is found by deducting one-fifth (not exceeding £300) from the total income earned by an individual, and adding to it the whole of the unearned or investment income.

The tax is charged not on assessable but taxable income. This is found by deducting from the assessable income £.100 for a single person and £.180 for a married couple, and also given allowances in respect of children (£.60 for each child), dependents relatives or house-keepers, but not assurance premiums.

The standard rate of the tax has varied as follows:

1925-26 to 1929-30	4s. in the £
1930-31	4/6 ,,
1931-32 to 1932-33	5s. ,,
1934-35 to 1935-36	4/6 ,,
1936-37	4/9 ,,
1937-38	5s. ,,
1938-39	5/6 ,,

From 1931-32 the tax was charged on the first £175 of the taxable income at half the standard rate. In 1935-36 a relief of two-thirds of the standard rate was allowed on an amount of income not exceeding £135. Incomes not exceeding £125 are exempt from taxation and the tax payable on any total income of less than £140 is not more than one-fifth of the amount by which the total income exceeds £125.

A distinction is made in England between earned and unearned income, and between married and unmarried persons. It is also recognised that those having more children and dependents have a smaller tax-bearing capacity than others less burdened in this respect.

The super-tax, now called sur-tax is an additional graduated income tax levied on all personal incomes exceeding £2000 per annum.

THE SLAB SYSTEM

The reform of the Indian Income-tax was considered by the Income-tax Enquiry Committee appointed by the Government of

India in 1936. Its most important recommendation, which has been accepted, was the substitution of the 'slab' system in place of the 'step' system. The committee condemned the step system on the ground that under this system the actual tax payable on various ranges of income is excessive as compared with that on incomes above and below. The 'slab' system is based on the application of progressive rates to successive slices of income. The specimen scale of rates on 'slab' system given by the Committee is reproduced in the appendix to this section.

The difference between the 'step' and the 'slab' system may be shown by an example.

If income amounts to Rs.25,000 the tax payable under the existing system is at the rate of 19 pies per rupee on the whole income *plus* 1/12 surcharge. This is equal to Rs. 2,680, or 10·7 per cent of the income.

Under the 'slab' system, the first slice of income, Rs.1500, will be tax-free. On the second slice of Rs.3,500 the tax will be paid at the rate of 9 pies per rupee (Rs. 164). On the third slice of Rs. 5,000, 15 pies per rupee will be charged (Rs. 391); on the fourth slice of Rs. 5000, 2 As. per rupee, (Rs. 625), and on the balance of Rs. 10,000, 2½ As. per rupee (Rs. 1,562). The total tax payable would be Rs.2,742, which is 11 per cent of the income.

If the income is Rs.4,000, under the slab system the tax will be payable only on Rs.2,500 at the rate of 9 pies per rupee, or Rs.117 (2·9 per cent of income), as compared with 3·4 per cent or Rs.135 at present (6 pies per rupee on the whole income *plus* 1/12 surcharge).

The reader's attention is directed to the Chart ilustrating the 'step' and the 'slab' system. It is seen that the percentage of income taken under the 'step' system rises by steps up to Rs. 30,000 (Super-tax is already levied on the 'slab' system on incomes above Rs. 30,000). Under the specimen scale of the Income-Tax Enquiry Committee (which has been adopted for taxation) the percentage of income taken rises gradually throughout the whole range of the incomes taxed, and the upper grades of income pay a higher percentage of their income as tax

than at present. For example on incomes of Rs. 50,000, Rs. 60,000, Rs. 70,000, and Rs. 80,000 the tax payable under the 'slab' system according to the Committee's scale is 18·3%, 20·5%, 22·4% and 23·9% respectively, instead of 16·1% 17·2%, 18·0% and 18·6% respectively under the 'step' system.

The Income-Tax Enquiry Committee made two other important recommendations.

The foreign income of residents in British India was taxed on the remittance basis, that is only that part of the income arising abroad which was remitted to India was taxed. The Committee recommended that foreign income of residents in British India should be dealt with on the basis of the whole income arising, *i.e.*, the accrual basis was to be substituted for the remittance basis of taxation. The objections to the remittance basis were thus summarized by the Committee:—

(1) Opportunity is afforded for fraudulent evasion of the tax.

(2) Income not brought to India is invested abroad. Not only is no tax payable on this part of resident's income but the supply of capital for Indian Industry is adversely affected.

(3) Some Provincial High Courts have held that the profits arising from the sale of goods by foreign branches of British Indian concerns are non-assessable unless remitted, when the profits may be said to arise primarily from the higher management and control which are situate in British India.

Effect has been given to these recommendations of the Committee.

The taxation of agricultural income was beyond the scope of the Committee, for under sections 100 and 138 of the Government of India Act, 1935, 'taxes on agricultural income' are included among provincial subjects of legislation (item 41 of Provincial Legislative List). The Federation shall have the power of leving taxes on income 'other than agricultural income'. But the Committee were not precluded from recommending 'that

the agricultural income of an assessee should be taken into account in fixing the amount of the tax payable on his other income.' (p. 7). At present an agriculturist with a non-agricultural income of less than Rs. 2,000 will pay no income tax, even when his income from agriculture may be very considerable. "On the principle of 'ability to pay,' wrote the Income-Tax Committee, "we find, as did the Taxation Enquiry Committee of 1924-25, that 'there is ample justification in theory for the proposal that income from agriculture should be taken into account for the purpose of determining the rate at which the tax on the other income should be assessed'" (p. 1).

It was objected to this proposal that it would be difficult to determine the amount of agricultural income. The Income-Tax Committee were not impressed by the supposed difficulty. "Various Officers of the Department, however, assure us that there would be no undue difficulty in estimating such income from the land revenue, road cess and other records. They say, moreover, that reasonably close estimation in such cases would be much easier than in many cases of business profits."

Appendix

Specimen Scale of Rates on "Slab" System

Income-tax

A.—Individuals, unregistered Firms and Hindu Undivided Families not falling under heading B below:—

	Rs.	Rate.
First	1,500	Nil
Next	3,500	9 pies in the rupee.
"	5,000	1 anna 3 pies in the rupee.
"	5,000	2 annas in the rupee.
Balance of income ..		2 annas 6 pies in the rupee.

No tax payable on income not exceeding Rs. 2,000; and marginal relief of excess of tax over half the excess of income above Rs. 2,000.

B.—For Hindu Undivided Families with more than one adult married male member, as in A above but with double each "slab" of income.

C.—"Company" rate............2 annas 6 pies in the rupee.

Super-tax

A. Assessees other than Companies and Hindu Undivided Families not falling under heading B below:—

	Rs.	Rate.
First	25,000	Nil
Next	10,000	1 anna in the rupee.
"	20,000	2 annas in the rupee.
"	70,000	3 annas in the rupee.
"	75,000	4 annas in the rupee.
"	1,50,000	5 annas in the rupee.
"	1,50,000	6 annas in the rupee.
Balance of Income		7 annas in the rupee.

B.—Hindu Undivided Families with more than one adult married male member, as in A above but with double each "slab" of income.

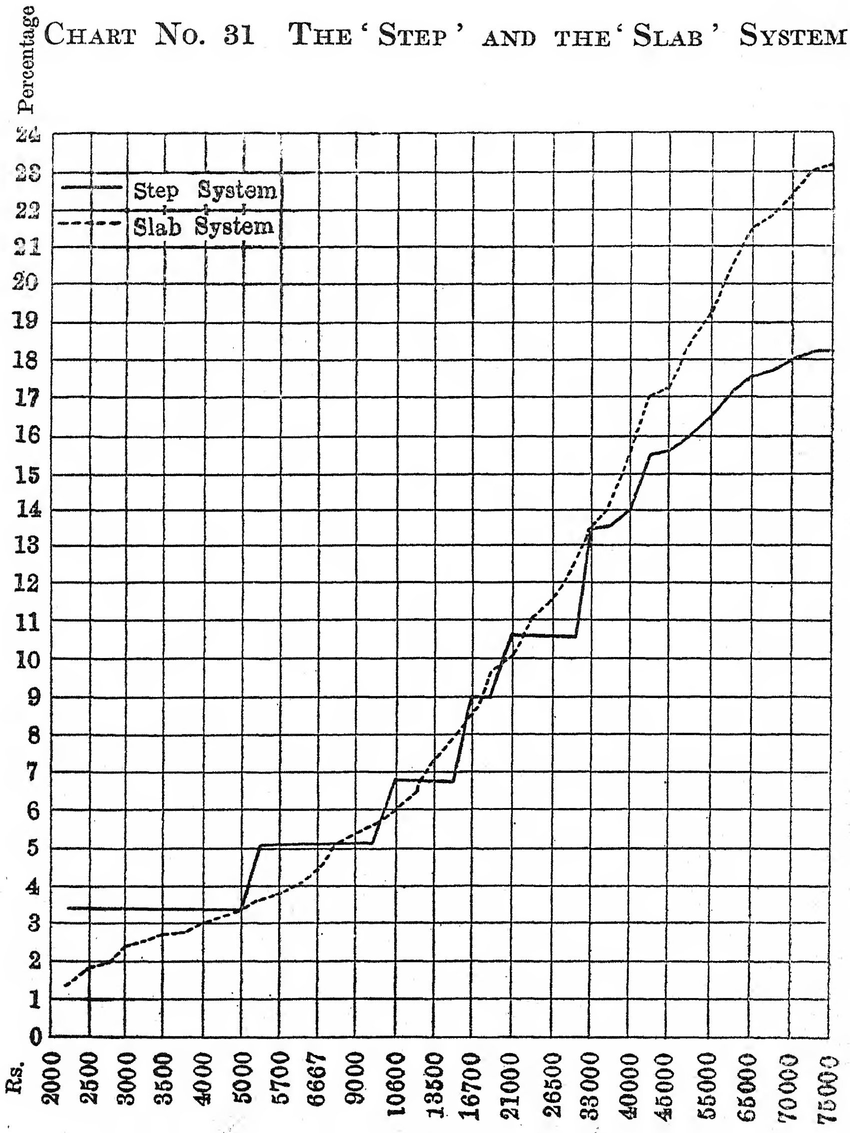
C. Companies.—No exemption.

Rate of tax .. 1 anna in the rupee of the whole income.

Statement showing the tax payable as a percentage of income in select cases (a) under the present scales of Income-tax and Super-tax including surcharge at 1/12th, (b) under the specimen "slab" scale.

Income.	(a) Present Scale. Tax.	Percentage.	(b) Specimen Scale. Tax.	Percentage.
2,000 ..	1	..	..	..
2,150 ..	73	3·4	30	1·4
2,500 ..	85	3·4	47	1·9
2,700 ..	91	3·4	56	2·0
3,000 ..	102	3·4	70	2·3
3,250 ..	110	3·4	82	2·5
3,500 ..	118	3·4	94	2·7
3,750 ..	127	3·4	106	2·8
4,000 ..	135	3·4	118	3·0
4,500 ..	152	3·4	141	3·1
5,000 ..	170	3·4	164	3·3
5,333 ..	271	5·1	190	3·6
5,700 ..	289	5·1	219	3·8
6,000 ..	305	5·1	242	4·0
6,667 ..	339	5·1	294	4·4
8,000 ..	406	5·1	398	5·0
9,000 ..	457	5·1	477	5·3

Chart No. 31 The 'Step' and the 'Slab' System.



10,000 ..	509	5·1	555	5·6
10,600 ..	718	6·8	630	6·0
12,000 ..	813	6·8	805	6·7
13,500 ..	914	6·8	992	7·3
15,000 ..	1,017	6·8	1,180	7·9
16,700 ..	1,508	9·0	1,445	8·7
20,000 ..	1,806	9·0	1,961	9·8
21,000 ..	2,251	10·7	2,117	10·1
25,000 ..	2,680	10·7	2,742	11·0
26,500 ..	2,841	10·7	3,070	11·6
30,000 ..	3,217	10·7	3,836	12·8
33,000 ..	4,434	13·5	4,492	13·6
35,000 ..	4,796	13·7	4,930	14·1
40,000 ..	5,700	14·2	6,336	15·8
44,000 ..	6,919	15·7	7,461	17·0
45,000 ..	7,109	15·8	7,742	17·2
50,000 ..	8,069	16·1	9,148	18·3
55,000 ..	9,197	16·7	10,555	19·2
60,000 ..	10,325	17·2	12,274	20·5
65,000 ..	11,454	17·6	13,993	21·5
67,000 ..	11,905	17·8	14,680	21·9
70,000 ..	12,582	18·0	15,712	22·4
74,000 ..	13,485	18·2	17,087	23·1
75,000 ..	13,710	18·3	17,430	23·2
80,000 ..	14,840	18·6	19,149	23·9

Rural Taxation

The agriculturist pays two main direct taxes, the land revenue and the water rates. We may consider the water rates first; land revenue requires lengthier treatment.

The water rates are not merely a price paid for the use of water. They are frankly levied as a tax.

When a service is a Government monopoly, and when the charge made for the service much exceeds the cost of the service, the charge is a tax.

The following table shows net revenue from Punjab canals major, or productive works:—

For the Year

Year.		Capital outlay, direct & indirect to the end of the year, lakhs.	Gross Revenue Lakhs.	Working expenses Lakhs.	Net revenue Lakhs.	Percentage on Capital.
1927-28	..	30,57	6,47	1,85	4,61	15·09
1928-29	..	31,75	6,05	2,07	3,98	12·53
1929-30	..	32,34	6,84	2,45	4,40	13·61
1930-31	..	32,78	6,51	2,36	4,14	12·64
1931-32	..	33,18	5,84	1,54	4,30	12·95
1932-33	..	33,29	5,84	1,69	4,14	12·50
1933-34	..	33,71	6,56	1,70	4,86	14·42
1934-35	..	33,14	6,46	1,69	4,78	14,41
1935-36	..	33,31	6,46	1,71	4,75	14·25

To the end of the year 1935-36, capital outlay amounted to 33,31 lakhs and interest charges to 33,88 lakhs, that is interest paid to the end of the year exceeded the capital outlay. Net revenue to the end of the same year amounted to 115·54 crores. Accumulated profits to the end of the year amounted to 115·5 crores *less* interest charges to the end of the year, 33·88 crores, or 81·64 crores.

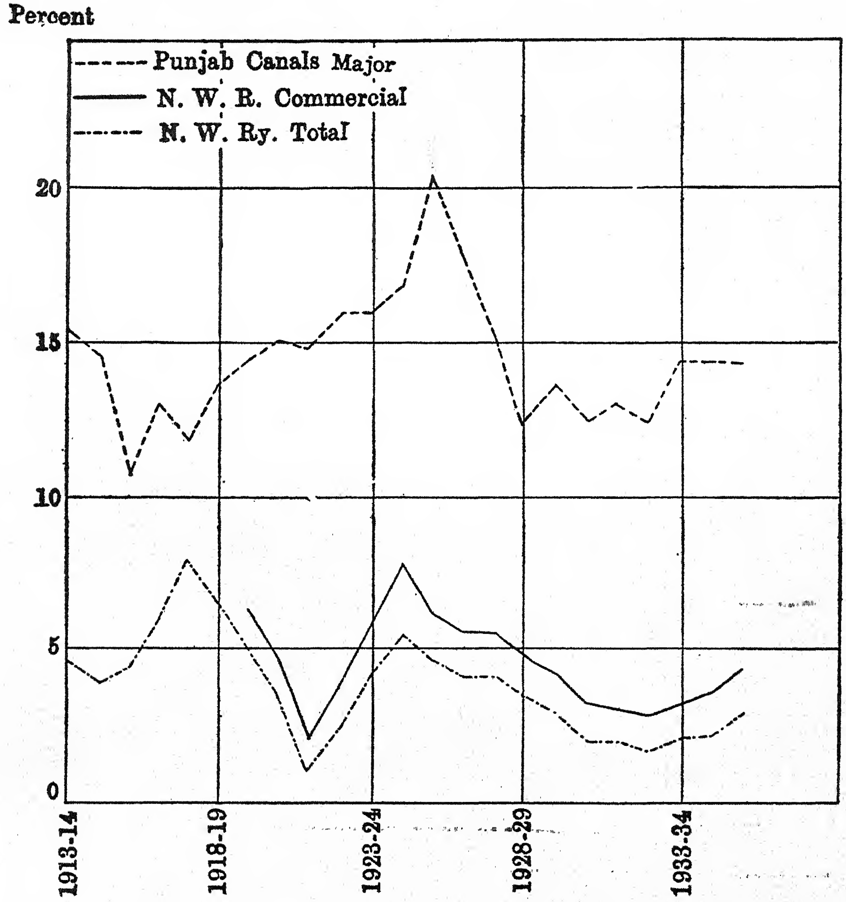
The Punjab canals are a source of considerable profit to Government. For the year 1927-28, the canals earned 15 per cent on capital. The percentage declined in the years of depression, but it never fell below 12½.

The 'Irrigation Surplus' is found by deducting from the total net receipts total expenditure, including interest on debt.

This surplus comes from the pockets of farmers and it is utilised for general purposes. The 'surplus' exceeded 2 crores in 1930-31 and was about equal to 3 crores in 1931-32—in other words, at a time when the fall of prices had rendered cultivation unremunerative over large parts of the Province, the farmer continued to pay the water-rates on a scale much higher than the cost of service.

The water-rates are a rigid and inelastic charge. There is no obligation on the part of Government to reduce them when prices fall.

Chart No. 32 Net Revenue as percentage on Capital, 1913—14 to 1935—36.



To the end of the year 1927-28 capital invested in the N. W. Railway amounted to 133·1 crores, on which the percentage of net revenue earned in that year was 3·5. The percentage of net revenue (total) fell as low as 1·7 in 1932-33 (2·8 per cent, commercial lines only). As compared with a net revenue of 14¼ per cent on capital in the case of the canals in 1935-36, the N. W. R. earned 2·9 per cent profit, total, and 4·4 per cent profit on commercial lines only.

Under existing conditions the charge for canal water is excessively high.

In regard to the principle on which water rates should be based the Taxation Enquiry Committee of 1924-25 stated:—

"The Government, by making irrigation available to a particular piece of land, especially if it guarantees to continue to do so, gives a potential increase both to the annual and to the capital value of the land. There would of course be no actual increase in the latter if the wohle of the increase in the annual value were taken in the shape of payment for water. But in actual practice what is taken is generally quite a small fraction of this increase. Consequently, the result of the action of the Government in guaranteeing the supply of water is to give a large unearned increment to the owner of the land, whether he is a cultivator or a rent receiver, and it is a generally accepted theory of taxation that there is no source of income from which a considerable share may be taken for purposes of the State so appropriately as from an unearned increment or windfall of this kind" (para 131).

The minimum charge for water, except in special cases, would be equal to the cost of service, that is the cost of maintaining the irrigation works plus interest on capital cost. The maximum charge may be so fixed as to appropriate the whole of the increase in the return from the land resulting from the use of canal water. "The normal" the Taxation Enquiry Committee recommended, "should be a moderate share of the value of the water to the cultivator" (p. 112).

This may seem to be a reasonable view, but the working of this principle in actual practice is open to serious objections.

The normal charge devised to take from the cultivator 'a moderate share of the value of water' in the days of prosperity, may continue to be levied even when cultivation becomes unremunerative, as it did in the Punjab in the year 1930-31. The gross amount of irrigation revenue realised in that year amounted to 6,14 lakhs. Can it be pretended that this charge was 'a moderate share of the value of water' to the cultivator in that year?

The Government view of water-rates is expounded in a note pre-fixed to the report of the Abiana Committee. (This Committee, composed of official and non-official members of the Punjab Council, was appointed in July 1933). The non-official members of the Committee recommended "that a separate budget should be prepared and presented to the Council and the commitments of the department of Irrigation to contribute to the general finances of the Province should be restricted in their extent and regulated on some intelligible basis, as is done in the case of the railway budget in the Central Government." The Government, of course, cannot entertain such a proposal. The proposal, we are told in the Government review of the Report, "is based on a fundamental misconception, that the irrigation works of the Province were created and are maintained for the benefit of a particular class. This is not so." The irrigation works of the Province were created for the benefit of the whole population, and their construction was financed partly out of surpluses from the revenues of the Province and partly out of borrowed money advanced on the security of the general revenues, as well as from the sale of lands irrigated by the Canals. Further: 'The water in the Punjab rivers and the Crown lands irrigated by them are the property of the State while the users of canal water are not the whole body of the citizens of the Province but a fortunate section comprising only about 34 per cent of the total population. If, therefore, a section of the people benefit directly by the use of that water, the rest of the population is equally entitled to benefit indirectly. The analogy of the Railways of India, which are used equally by the whole population, is not an exact one. The suggestion that after deducting a certain

fixed return for the benefit of the State generally, the remaining profits from a particular form of taxation should be expended for the benefit of the particular section of the population which pays the tax is not only indefensible in theory, but would in practice be unworkable. It could be used with equal justice by motorists, by users of excisable liquor or by those who provide the income from stamp duties of various kinds........The *reductio ad absurdum* of the proposal of the non-official members would be that each citizen could only receive that share of the benefits provided by State, which was represented by his actual contribution to the general revenues" (para 7).

These observations are of extraordinary interest, particularly as they come from the then head of the Punjab Government.

The whole argument is based on the assumption that the water-rates are a tax, not a price charged for water. A tax, as we know, is not a *quid pro quo* for a specific service rendered by Government to the individual who pays the tax. It is a general contribution to the revenues of Government to enable the Government to carry on its administrative and other functions. We agree. It is also true that the agriculturist is exempt from the income-tax. The land revenue and the water-rates may be regarded as a substitute for the income-tax in the case of the cultivator.

But if the water-rates are a tax on income, the tax should be made to conform to the well-known principles of taxation. The burden of the tax should be adjusted to the tax-payer. But while the water rates are a tax, they are levied in the form of price. Every one who takes canal water pays the water-rates, just as every one who makes use of the railway, or the services of the postal or the telegraph department, pays the charge fixed for the service.

In essence the supply of canal water to the cultivator is a service.

Further, while those who use canal water are 34 per cent of the total population, *i.e.*, farmers whose lands are irrigated, indirectly the whole Province shares in the benefits which flow from canals. If the canals ceased to flow, the cultivator would

perish, but at the same time there is no section of the population of the Punjab which could escape serious injury—consumers in towns, those who market the produce of canal-irrigated areas, money-lenders, bankers, agency-houses, commission agents and others, lawyers, teachers and even Government servants would all grow poorer. The benefits of canals are not narrowly restricted to 34 per cent of the population.

The charge for water is at present determined with reference to the financial needs of the Province. This is a wrong principle.

A charge which could be paid when prices were high cannot be paid when prices are low. The water-rates must be related to the degree of profitableness of agriculture at the present time.

The State must reduce its expenditure. Present prices are more 'normal' than the prices of 15 years ago. The prices of 1924-25 were wholly artificial, and the income of those days inflated income. Those days are definitely gone. Standards of State expenditure set up then cannot be maintained.

There is very little hope of anything being done in the matter, but then we should have at least the fairness to admit that the inability of Government to reduce the cost of administration does not make the taxation of the subsistence of poor men, women and children in the villages morally justifiable or economically sound.

The Land Review

The land revenue has been paid in India from time immemorial. What is the nature of the land revenue as it is levied at present?

The nature of the land revenue has formed the subject of a lengthy discussion.

In a minute written in 1875 Sir Sir H. Maine answered the question whether the land revenue was or was not rent in the negative. It seemed to him incredible that since the beginning of history any Government should have taken the full economic rent of the land cultivated by its subjects. To do this it would be necessary for the Government to "put up the soil in parcels to competition,"

without recognizing any hereditary rights of property. "No evidence", said Sir H. Maine, "of any such system exists; some preferential rights, whether they can or cannot be called ownership, have always been acknowledged".

Such preferential rights which may be described as ownership, we may add, were recognised by the Moghul Kings. In the *Ain-i-Akbari*, Abul Fazal refers to owners of property who held their lands by ancestral descent:

*   *   *   *

"It is well known that in inhabited parts of the country there are numerous owners of property, who hold cultivable lands by ancestral descent" (Persian Text, A. S. B., vol. I. p. 290).

If then rights of property were recognized in India in pre-British days, how did the land revenue come to be looked upon as rent by the British Government? The burden of the land revenue under Indian rule was heavy—the State demand sometimes absorbed nearly the whole of the net income from cultivation. Rent and State ownership, according to Sir H. Maine, "did certainly express to an English ear, better than any others, the nature of the right which was exercised by the Indian Government. The morality current in England did not forbid the exaction of an extreme rent from a tenant, just as the morality current in India did not forbid the exaction of excessive contributions from a subject in virtue of the land which he occupied." Under Indian rulers, then, the land revenue was a tax, but it was so heavy as to be equal to an extreme rent. Our British rulers mistook it for rent.

In a minute, also written in 1875, Sir Louis Mallet emphasized the importance of distinguishing between rent and revenue. This was not a question of words to the cultivator. Sir Louis Mallet protested against the policy of resisting and removing taxes such as income-tax and customs, and adding to the charge laid on the land in order to provide the sums needed for public works, education, health, famine, and other beneficent objects. He described that policy as 'communistic'.[1] "I shall rejoice to see a limit placed

[1] "So long as the exactions from the land by the State were levied by the Company as the inheritor of the despotic Governments, and frugally dispensed in the several

on future assessments", he said, "with a view to which the renunciation of the theory of State landlordism would be the most effectual step".

Under which theory can the State demand more revenue from the cultivator? Under the rent theory, Lord Salisbury (Secretary of State for India, who took a share in this controversy in 1875), pointed out, the State would be obliged to leave wages and profits to the cultivator—it could take only the surplus produce of the soil. Under the tax-theory, on the other hand, the State might take whatever it pleased: the cultivator's payments would be limited only by the power of mercy of the Government. "It speaks boldly for the character of British rule" added his Lordship, "that the advocates of the Ryot call for the application of the tax-theory." He agreed with Sir Louis Mallet that the "nondescript land dues should tend to the form of revenue rather than that of rent."[2]

The occasion which gave rise to this instructive discussion 60

functions of administration, or even sent in the form of tribute to England, I can understand the Indian people accepting their condition. But when the the sums so taken are largely spent, as they now are, for the avowed purpose of benefiting the Indian Empire and people at large, on public works, education, health, famine, and all the objects which, under the influence of modern ideas, fall within the province of State expenditure, and attempts are made more and more to resist and remove taxes such as income-tax and customs, which fall on other than the landholding classes, while to meet the increasing burdens of the State additional charges are laid on the land, may they not awaken to the fact that they are being made the subject of an experiment, which, I venture to think in spite of Sir H. Maine's criticism, can only the appropriately described, where it is found, as 'communistic.'

"From this point of view, the policy of further taxing the land might easily become a political danger, and the large margin on which under the rent theory, the State has a right, if it be not a duty, to encroach, lends itself too easily to such an extension." (Sir Louis Mallet's Minute, 1875).

[2] "To the modern Indian statesman the refined distinctions of the economical school are a solid living reality, from which he can as little separate his thoughts as from his mother tongue. To us it may seem indifferent whether we call a payment revenue or rent, so we get the money; but it is not indifferent by what name we call it in his hearing. If we say that it is rent, he will hold the Government in strictness entitled to all that remains after wages and profits have been paid, and he will do what he can to hasten the advent of the day when the State shall no longer be kept by any weak compromises from the enjoyment of its undoubted rights. If we persuade him that it is revenue, he will note the vast disproportion of its incidence compared to that of other taxes,

years ago was a difference of opinion between the Governor of Madras and his Council regarding the power of the local Government to increase the assessment.

The question was re-discussed in detail by the Indian Taxation Enquiry Committee of 1924-25. On the question whether, the State claimed exclusive proprietary rights over the land under Hindu and Mohammadan rule, the Committee quotes from the judgment of the Bombay High Court in a case from Kanara disposed of in 1875 (p. 61):

"This review of the authorities leads us to the conclusion arrived at also (after careful discussion of the question) by Prof. H. H. Wilson, that the proprietary right of the sovereign derives no warrant from the ancient laws or institutions of the Hindus and is not recognised by Hindu lawyers as exclusive or incompatible with individual ownership."

Colonel Galloway, a recognised authority on the subject of Indian land tenures under Mohammadan rule, says:

"The soil was the property of the cultivator as much as it could be. Law gave no power, policy gave no motive to remove him, so long as he paid his taxes. When he did not, his lands could be attached; and so can those of the first *peer*,, holding by the firmest tenure of the English law. The right of the Indian husbandman is the right of possession and of transfer; and the rate of his land-tax was fixed; often indeed the amount. In what respect, then, is his right of property inferior to that of

and his efforts will tend to remedy the inequality, and to lay upon other classes and interests a more equitable share of the fiscal burden.

"I prefer the latter tendency to the former. So far as it is possible to change the Indian fiscal system, it is desirable that the cultivator should pay a smaller proportion of the whole national charge. It is not in itself a thrifty policy to draw the mass of revenue from the rural districts, where capital is scarce, sparing the towns, where it is often redundant and runs to waste in luxury. The injury is exaggerated in the case of India, where so much of the revenue is exported without a direct equivalent. As India must be bled, the lancet should be directed to the parts where the blood is congested, or at least sufficient, not to those which are already feeble from the want of it." (Lord Salisbury's Minute, 1875).

the English landholder?" (Report of Taxation Enquiry Committe, p. 62).

The Taxation Enquiry Committee concluded:

"On these two points the Committee are unanimously of opinion that, under both Hindu and Mohammadan rule the State never claimed the absolute or exclusive ownership of the land and definitely recognised the existence of private property in it" (p. 62).

Thus the land revenue is not of the nature of rent. It is a tax. Let it be a tax on things and not on persons, but it is a tax all the same.

As a tax the land revenue is of a very peculiar nature. It is different from the land-tax of any other country. In other countries, as the Taxation Enquiry Committee pointed out, the land tax is levied at a definite rate upon a definite basis of assessment. The incidence of our land tax on different holdings varies very greatly. In one case the land revenue may take only a small fraction of the 'net income' from cultivation; in an other case it may absorb the whole of the 'net income', and even exceed it. There is no definite basis of assesment: it may be rentals or net assets. "The rentals may be customary, controlled or assumed. The net assets may include or exclude the subsistence of the cultivator" (p. 77). No definite principles govern the rate of assessment imposed: it may depend on the will of the Local Government, or the view of the settlement officer of the economic conditions of the tract or of the District at the time of settlement, or on the conditions of tenancy.

The Committee also drew attention to other serious defects of the land revenue system. The land revenue, the Committe said, "viewed as a scheme of taxation, is not only not progressive, but actually tends in the opposite direction."The land revenue imposes heavier burdens on the poorer landowners. But how can a tax on things be made progressive? The Committee referred to the creation "of a very large number of uneconomic holdings, the holders of which pay land revenue which would be inconsider-

able if cultivation were intensive or on a large scale, but rests as a heavy burden upon a small and impoverished holder" (p. 78).

Small and impoverished holders of ten years ago, when the Committee reported, have become more impoverished now, prices having fallen.

In European countries and Japan in addition to a light land-tax there are death duties and a tax on agricultural income. Land taxation is thus made progressive on the whole. These sources of revenue are not utilised here, with the result that the burden is shifted "more and more on to the less prosperous cultivators."

The land revenue is an important source of revenue in the Provinces. In European countries there is a tendency to use the land-tax more and more for local purposes. In India it is a tax utilised for general purposes. "Only a very small fraction of the tax collected from the cultivator is actually used for rural development, and the illiterate ryot is therefore unable to recognise the benefits which he derives from the direct tax that he pays" (p. 79).

The land revenue being a tax *in rem* levied at a flat rate, it cannot be graduated, nor exemption granted to particular lands because of the circumstances of the persons who cultivate them. "The real relief of the poorest cultivator in these circumstances", wrote the Committee, "is to be found in a better system of rural economy generally rather than in a change of the land revenue system" (p. 88). Or, as we may say in the words of another high authority, the question of relief of agriculture cannot be dissociated from the whole problem of *rural betterment* or village improvement (*The Agricultural Situation in 1931-32*, note on measures of Government farm relief in India, p. 181). Village improvement has been already taken in hand. The land revenue will not be felt as a burden by the smallest holder when the supply of water in the villages for drinking and other domestic purposes improves, roads and wells are cleaned, the standard of general sanitation rises, and the panchayats begin to take a more serious view of their duties!

The lightening of tax-burdens through village improvement or rural reconstruction may take centuries. Village improvement started many years ago—it has not led to any perceptible improvement in the taxable capacity of the peasant.

The Taxation Enquiry Committee made two definite suggestions. First, the standard rate of assessment was not to exceed 25 per cent of annual value. This recommendation was accepted by the Punjab Government in 1929, and, at the same time, it was laid down that assessments shall be revised only once in 40 years. As regards the basis of assessment the Committee said: "What the Committee would recommend is that for the future the basis of the settlement should be annual value, a term by which they mean the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise......" (p. 85).

The annual value is thus to be determined by deducting from the value of the gross produce the farmer's wages and profits and other elements of cost of production. Of this annual value, 25 per cent was to be the State's share. Annual value in this sense would represent a real surplus. If after deducting the wages of the farmer and his family for the labour expended by them, the wages of hired labour, cost of seed, upkeep of bullocks, and the cost of implements, and making allowance on account of 'the return for enterprise', the peasant was left with, say 4 rupees per acre, let the State take one rupee.

Land Revenue in the Punjab

We have seen above that the State has recognised rights of property in the land, from which it would follow that the land revenue is a tax, rather than a rent. Further, according to Baden Powell, land revenue '*operates* as a tax on agricultural incomes—a contribution to the State out of the profits on land cultivation just as the income tax is a contribution out of the proceeds of other industries and occupations".*

* *Italics* Baden-Powell's. *Land Revenue in British India* p. 49.

In actual practice, however, the land revenue is treated as the State's share in the net profits of cultivation. 'Net profits of cultivation', 'net assets' and 'economic rent' mean the same thing—they are used interchangeably in settlement literature. Land revenue is thus levied on the rent theory.**

'Net Assets', as we have seen above, are interpreted differently in different provinces. But in each province they have a definite connotation. In the Punjab 'net assets' are interpreted as landlords' net assets. The Punjab Land Revenue Act thus defines 'Net Assets.':—

"'Net Assets' of an estate or group of estates means the estimated average annual surplus produce of such estate or group of estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated." (Clause 3 (18).

The payments included under 'ordinary expenses of cultivation' are expressly mentioned in the Act.

They are payments 'which the land-owner customarily bears, whether in kind or in cash either in whole or in part in respect of

"(1) Water rates,

(2) maintenance of means of irrigation,

**" *Rights of State and private Land-owners in land and its produce.* In India the State has always claimed a share of the produce of the land from the persons in whom it recognised a permanent right to occupy and till it or arrange for its tillage. It is needless to discuss the various ways in which this permanent title was acquired by families or individuals: it is enough to note that the right of the ruler to his share and the right of the occupier to hold the land he cultivated and pass it on to his children both formed part of the ancient customary law of the country, however the latter might occasionally be denied in practice by an unjust Government.

[2] " *Ownership of land in India. Land Revenue not a land tax.* Broadly speaking, individuals exercising a permanent right of the kind described above subject only to payment of the dues of the State have been recognised by us as 'owners' or 'proprietors', but it would be a mistake to assume that these words, as used in India, imply all that they do in England. The share of the State which we call the Land Revenue, is not a land tax. It is more analogous to rent, and in early settlement literature it was so described, the Government being represented as surrendering to the land-owner a small portion of the rent. The land revenue is therefore, 'the first charge upon the rents, profit or produce' of an estate or holding and, until it has been paid, they cannot, without the consent of the Collector, be taken in execution of a decree obtained by any private creditor. Land Revenue Act, XVII of 1887, section 62" (Douie's *Settlement Manual*).

(3) maintenance of embankments,
(4) supply of seed,
(5) supply of manure,
(6) improved implements of husbandry,
(7) concessions with regard to fodder,
(8) special abatements made for fallows or bad harvests,
(9) cost of collection of rent,
(10) allowance for shortage in collection of rent,
(11) interest charges payable in respect of advances made in cash, free of interest, to tenants for the purpose of cultivation.
(12) wages or customary dues paid to artisans or menials whose products or labour are utilised for the purposes of cultivation and harvesting,

and the share that would be retainable by a tenant if the land were let to a non-occupancy tenant paying rent, whether in cash or in kind, at the normal rate actually prevalent in the estate or group of estates."

Let us assume that the gross produce of an estate is 100 maunds of wheat. The estate is cultivated by tenants on ½ batai. Then the expenses of cultivation, according to the Land Revenue Act, are the share retained by the tenant, *plus* the expenses in connection with the items mentioned above, which have been paid by the landlord. Assume that the total expenses amount to 60 maunds—then 40 maunds are landlord's net assets, of which one-fourth will be Government's share or land revenue.

Calculation of Net Assets in Money

Land revenue is paid in money, and therefore net assets must be calculated in money. The following statement gives the actual figures for Lyallpur Tehsil, assessed under the sliding scale in 1935:—

"The calculation of net assets on the kind rent basis is as follows:—

Total matured area excluding unassessable area but including

12,000 acres of double cropping	.. Acres	403,124			
Total value of Gross produce ..	.. Rs.	2,27,84,542			
Deduct Menials' Dues 9% ..	.. ,,	20,50,609			
Leaving	.. ,,	2,07,33,933			
Landlords' half share ..	.. ,,	1,03,66,966			
Deduct half water rate ..	.. ,,	9,35,844			
Leaving	.. ,,	94,31,122			
Add half land revenue, malikana and cesses ..	,,	10,50,577			
Total	.. ,,	1,04,81,699			
Deduct half cost of seed ..	.. ,,	4,25,791			
Landlords' net assets ..	.. ,,	1 00,55,908			
One quarter share of Government	.. ,,	25,13,977			
Incidence per acre of matured area excluding area of double cropping *i.e.* 391,124 acres	,,		6	6	10
Incidence per acre, of cultivated area excluding unassessable area *i.e.* 388,147−2,034= 3,86,113 acres	,,		6	8	2

"In accordance with the provisions of sub-section (3) of section 51 of the Land Revenue Act, the average rate of incidence on the cultivated area shall not exceed the rate of incidence of the land revenue on the cultivated area imposed at last settlement by more than 25%. The manner in which the incidence at last settlement shall be calculated is stated in Land Revenue Assessment Rule 31 (*b*), and, in accordance with the methods there stated, the incidence according to last settlement is Rs. 5/5/9 per cultivated acre. If this is increased by 25% the maximum average incidence per cultivated acre is Rs. 6/11/2. This is slightly in excess of the demand by quarter net assets which, as stated above, is Rs. 6/8/2 per cultivated acre. It therefore appears that, if prices rise sufficiently, Government will be entitled to take the full quarter net assets. In other words, it can impose a maximum theoretical assessment giving an average incidence of Rs. 6/8/2 per cultivated acre." (Report by Mr. Kriplalani, I.C.S.).

The calculation of the value of gross produce is based on what are known as 'commutation prices.' Usually average prices during the preceding twenty years are used for 'commutation' purposes.

The value of gross produce in the statement given above was found to be about 228 lakhs. Menials' dues are deducted from the common heap before the division of the produce between landlord and tenant. Deducting these dues, we are left with 207·3 lakhs, of which one half is the landlords' share. With the share of the tenant we have no concern—it may or may not be sufficient to defray the expenses of cultivation borne by the tenant. Taking the landlord's share, we deduct from it all expenses borne by the landlord—half water-rate and half cost of seed. We add half land revenue, malikana and cesses because in the Lyallpur district, water-rates and land revenue are paid half and half by landlord and tenant. Theoretically, land revenue is paid by the landlord and water-rates by the tenant. If that were actually the practice in the Lyallpur district, there would be no *deduction* of half-water-rates and no *addition* of half land revenue, malikana and cesses in the statement given above. As it is, the landlord pays half-water-rate, which is deducted from his share, and he gets the tenant to pay half land revenue *etc.*, which must be added to his share.

It is seen that landlords' net assets were found to be 100·5 lakhs, of which one fourth or 25·1 lakhs is land revenue, or Government's share.

Under the existing definition of net assets as landlords' net assets, it is assumed that the whole land, which is assessed, is given to tenants on batai. Actually a considerable proportion of land in the Punjab is cultivated by peasant proprietors. But peasant proprietors will pay land revenue at the same rate as non-working landlords. The existing definition assumes that peasant proprietors' net assets are identical with landlords' net assets.

This is emphatically not true.

Let us take an example. In the year 1930-31, the value of gross produce of a farm of 27·3 acres in the Lyallpur District, given on batai, was Rs. 976. The gross incomes of landlord and

tenant were equal, Rs. 488 each. Ignoring land revenue, the expenses borne by the landlord amounted to Rs. 87, whcih leaves Rs. 401 as landlords' net assets (water-rates Rs. 65/2/-, harvesting Rs. 13/1/11, winnowing Rs. 5/6/9 and Kamins Rs. 3/7/3). But these landlords' net assets are not the true economic rent of land, unless it is shown that the tenant, out of his share, was able to meet all his expenses of cultivation, including wages for himself and the working members of his family.

The following is a detail of the tenant's expenses:—

	Rs.	As.	P.
Water rates	65	2	0
Seed	50	6	0
Upkeep of Bullocks	379	5	8
Harvesting	13	1	10
Winnowing	5	6	9
Kamins	3	7	3
Implements	27	0	0
Miscellaneous	4	10	8
TOTAL ..	548	8	2

Not only did the tenant (4 adult male workers) earn no wages at all, but suffered a loss on his year's cultivation as his expenses, ignoring his wages, exceeded the value of his share!

If any one suggested that the net gain of the landlord Rs. 401, was identical with economic rent of this farm, he would be talking nonsense.

Now peasant proprietors' net assets are identical with the economic rent of land. They cannot be found without deducting from the total value of the gross produce all expenses, including wages of the peasant proprietor and working members of his family. Further, as has been said above, 'net assets' are identical with the economic rent of land. It follows that when the tenant does not get full wages for his work, landlords' net assets contain an element of the tenants' subsistence or that they are not true

economic rent. No justification exists for taxing the peasant proprietor at a rate derived from landlords' net assets.

The present system is doubly unjust. It is unjst to the tenant, for it completely ignores the tenant, and it is unjust to the peasant-proprietor, for it taxes him at a rate derived from landlords' net assets, which are not true net assets.

The non-cultivating landlord is able to exploit the tenant because of the constantly growing pressure of population on the soil. Land is scarce relatively to demand, and there are no alternative means of earning a livelyhood for the tenant class. Under such conditions it is not surprising that the landlord's share should contain a large element of loot. Government's land revenue is a share of this loot.

The State is entitled to 25 per cent of the net profits of agriculture. The only honest method of determining the net profits of agriculture in the Punjab is the direct method, or interpretation of net assets as profits on direct cultivation, *i.e.*, the gross produce *minus* cost of production, the wages of the cultivator and working members of his family, and return for enterprise being included in cost.

It was stated in the note to Q. 16 of the Punjab Land Revenue Committee that the Select Committee which considered the Land Revenue Act Amendment Bill of 1928 decided in favour of the interpretation of net assets as landlords' net assets as it was considered that the definition of net assets as profits on direct cultivation " would be surrounded with difficulties and involve too great a degree of assumption, inference and uncertainty."

Even if that were the unanimous view of the Select Committee, the process of determining net assets indirectly involves a much greater degree of " assumption, inference and uncertainty." It is assumed that landlords' net assets are true net assets which, as we have seen, they are not. The present method of assessment is hypothetical in the highest degree. The calculation of net assets directly would, at any rate, be less hypothetical. Secondly, it would be better suited to a Province where the overwhelming majority of revenue payers are peasant proprietors. Thirdly, when

the State's share is limited to one-fourth of true net assets of agriculture, it may be more willing to safeguard the interests of tenants than when it takes a share in the landlords' loot.

It is a fact that the majority of non-official members of the Select Committee opposed the definition of net assets as landlords' net assets in clause 3 (18) of the Land Revenue Act Amendment Bill of 1928.

The Select Committee consisted of 11 members: Sir Fazl-i-Hussain, Sir G. E. De Montmorency, Mr. W. R. Wilson, Mr. C. A. H. Townsend, Mr. M. M. L. Currie, Syed Mohd. Hussain, Rana Feroz Din, S. Ujjal Singh, S. Labh Singh, Raja Narendar Nath and Ch. Chhotu Ram. The last six were non-officials. Of these, Ch. Chhotu Ram, in his minute of dissent attached to the Report of the Select Committee insisted that the definition of net assets as landlands' net assets, while it safeguarded the interests of the rent-receiving class of landlords, "certainly did not do justice to the case of self-cultivating landowners." It was assumed that "the tenant gets all he deserves, and the landlord gets no more than his share of what is left after all legitmate deductions for the labour and expense incurred by the tenant have been made. "The real fact is," Chaudhri Sahib added, "that the tenant does not get anything like the share to which he is entitled as a result of the labour and expense which he incurs in cultivation and the landlord's share is swelled by an unjust diversion of a substantial portion of the fruits of a tenant's labour" (Punjab Gazette, 1928 Part V. P. 19). Chaudhri (now Sir) Chhotu Ram unreservedly rejected the definition of net assets as landlords' net assets.

Another non-official member, Syed Mohd. Hussain, was not satisfied with the Bill as it emerged from the Select Committee and reserved the right of moving necessary amendments to the Bill.

When Ch. Afzal-Haq moved an amendment to clause 3 (18) of the Bill relating to net assets, Syed Mohd. Hussain in supporting the amendment said: "Provision should be made for the labour of the people being taken into consideration in the matter of assessment. I can say on my own personal authority that these people

who are poor Zamindars are not getting even one anna per day for the labour." (*Punjab Council Debates* 1928, P.912).

A third non-official member of the Select Committee, S. Ujjal Singh, in his minute of dissent said: "In the case of land owning farmer, the net assets should be determined after deducting the ordinary expenses of cultivation and the value of labour of the farmer and his whole family expended on the holding."

A fourth non-official member, Rana Feroz-ud-Din, voted for Ch. Afzal Haq's amendment for including cost of labour in the expenses of cultivation (or against the interpretation of net assets as landlords' net assets in the Bill).

Only one non-official member of the Select Committee supported the definition of net assets in the Bill—D. B. Raja Narendar Nath. Like Sir Fazl-i-Hussain, Raja Sahib considered Ch. Afzal Haq's amendment irrelevant since cost of labour was already included in the Bill! Raja Sahib limited cost of labour to the dues of menials! "Moreover," Raja Sahib said, "his amendment besides being irrelevant, is also not very practicable, for it would be next to impossible to fix a standard by which the value of the labour of supervision by land-holder or his family can be arrived at. For example," Raja Sahib asked, "suppose a retired judge of the High Court goes to his fields and personally supervises cultivation, what would you pay to him as remuneration for his work?"

The answer is 'Not a pie.' The share received by the non-cultivating owner is his unearned income, or following Raja Sahib, let us call it his wages of supervision. The cost of labour with which we are concerned is the labour of the tenant and the working members of his family.

It thus appears that out of six non-official members of the Select Committee four opposed the definition of net assets as landlords' net assets either in the Select Committee or in the Council, and only one, supported it. We have also seen that Raja Sahib mis-understood labour costs.

The view of the Select Committee that the definition of net assets as profits on direct cultivation "would be surrounded

with difficulties and involve too great a degree of assumption, inference and uncertainty " was the view of Government, not that of the majority of non-official members of the Select Committee.

It has been said above that the calculation of net assets directly would be better suited to the Punjab since the overwhelming majority of our revenue payers are peasant proprietors. " The Punjab is in the main a country of peasant owners tilling their own field," says Douie's *Settlement Manual* (Para 313, edition 1930). There has been no change in the cultivating occupancy of land in the Punjab during the past six or seven years.

In this respect there is the strongest contrast between the Punjab and e.g., the United Provinces and Behar.

	Cultivating owners.	Tenant Cultivators.
	1,000	1,000
Punjab	1,707	1,128
U. P.	1,091	8,433
Behar and Orissa ..	291	6,129

In the United Provinces tenant cultivators outnumber cultivating owners in the proportion of over 7 : 1, in Behar over 20 : 1; in the Punjab cultivating owners outnumber tenant cultivators*.

According to the census of 1931, there were in the Punjab 192,531 non-cultivating proprietors, taking rent in money or kind, and 1,707,744 cultivating owners (males, total earners principal occupation). About 90 per cent of revenue payers are cultivating owners in the whole province. In certain districts the proportion is much higher (Hissar 98, Rohtak 97, Gurgaon 99, Karnal 96, Ferozepore 95, Simla 98, Kangra 96). It is below 80 per cent only in 3 districts, (Multan 74, Montogomery 60, Jullundur 78).

As regards area, the return of cultivating occupancy for the quinquennial period ending June 15, 1932 shows 44·5 per cent of the cultivated area of the Province as tilled by the proprietors themselves (including tenants holding direct from Government, and a small area held by tenants free of rent), 7·3 per cent as in the

* Figures for males alone—total earners principal occupation.

possession of occupancy tenants, and 48·2 per cent as in the hands of tenants-at-will. (*Land Revenue Administration Report* for the year ending 30th September 1933, Statement II). Even if the area held by tenants-at-will were larger, it would be no justification for taxing cultivating owners according to standards based on rent paid by tenants-at-will. Even if the whole cultivated area of the Province were held by tenants-at-will, land revenue must still be limited to a certain porportion of net assets, as directly ascertained or estimated. When it is known that the rent received by landlords contains tenants' subsistance, rent ceases to be a reliable guide to net assets.

Net Assets as Profits on Direct Cultivation

That the definition of 'net assets' as profits on direct cultivation would mean a lower assessment may be shown by an example.

We have seen that in the assessment of Lyallpur Tehsil the value of gross produce was found to be 228 lakhs, and landlords' net assets Rs. 100 lakhs. It follows that costs were taken as 128 lakhs, which is 56 per cent of the value of gross produce.

When 'net assets' are defined as landlords' 'net assets', the costs are very much under-estimated. This is because the definition, as we have seen, is not concerned with the earnings of the tenant.

If net assets were directly defined, costs would have to be allowed for at 75-80 per cent of the value of gross produce. This estimate is suggested by the accounts of income and expenditure of the Risalewala Farm, and the family budgets of tenant-cultivators published by the Board of Economic Enquiry, Punjab. On this will-managed Government farm of 800 acres (this farm shows a 'distinctly higher net income' as compared with other farms included in the Punjab Farm Accounts), the proportion of expenditure (excluding remuneration for the cultivator's labour and land revenue) to gross income during nine years, from 1926-27 to 1934-35, was 44·86 per cent. Wages for the cultivator and working members of his family would absorb about 1/3 of the gross value of the produce.

If cost is taken at 75 per cent of the value of gross produce, net assets of Lyallpur Tehsil are immediately reduced from 100 lakhs to 57 lakhs (228 lakhs less 171 lakhs). The Standard Demand would consequently be reduced from 25 lakhs to Rs. 14¼ lakhs.

The Sliding Scale

In the Punjab new principles of assessment were formulated in connection with the re-settlement of the Lyallpur district. These principles deserve our careful attention, as it is thought they introduce "a revolutionary change in the land revenue system of the Punjab." In the course of a press interview Sir Sikander Hayat (then Revenue Member of the Punjab Government), speaking as a zamindar said: "Never since the advent of the British, or for the matter of that under any rule, has such a big concession been granted to zamindars in the Punjab."

Let us examine the "revolutionary change" in the methods of assessment which the new system involves, and the 'big concession' that it makes to zamindars.

The prices of agricultural produce have always played an important part in assessment. Under the old system revenue rates were fixed in accordance with average prices of agricultural produce over a long period (due allowance being made for other factors), and it was assumed that there would be no large variation in prices throughout the period of the settlement. Throughout the period of the settlement, then, land revenue was realised according to those rates (barring remissions in cases of local deterioration), and no change was made in the rates of assessment on account of fluctuations of prices.

Under this system the peasant stood to gain when the average level of prices rose above the prices assumed for assessment purposes. If the standard rates are so fixed as to take not more than one quarter 'net assets,' a rise of prices above the assumed prices reduces the land revenue below the standard of one-quarter 'net assets.'

But the old system became unworkable when prices fell. It is impossible for peasants to pay the land revenue at rates fixed

according to the inflated prices of 15 or 20 years preceding the trade depression. The chief feature of the new system is the annual adjustment of the land revenue demand according to prevailing prices. As before, standard rates of revenue have been worked out with reference to average prices during a long period (the last twenty years). These standard rates, based on 'commutation prices,' are however, paper rates. They would not be enforced except when actual prices are as high as the commutation prices. When prices are lower, remission from standard revenue rates will be granted according to the difference between commutation prices and actual prices. If actual prices are 40 per cent lower, the remission of revenue will amount to full 40 per cent. For reasons of convenience remission in any year will be granted according to the market prices of the preceding year. It is not practicable to work out the scale of remission in any year according to the prices of that year as instalments of the land revenue are realised before the marketing of crops is complete.

If in any year market prices are higher than the commutation prices, the revenue payer will be given full advantage of the excess. But when prices are lower, a corresponding remission would be granted, however great the difference may be. As the official communiqué on the subject states: "While Government will be bound not to exceed the maximum rates as fixed, they will give to the revenue payer the full benefit of the fall in prices, however great that may be."

In calculating the remissions three factors will be taken into consideration: (a) the percentage of the total matured area under each important crop, (b) the average yield per acre of each of those crops, and (c) the cómmutation price assumed for each of those crops. Assuming there is no change in (a) and (b), the amount of the remission will be solely determined by the percentage fall of prices as compared with the commutation prices.

For an example of assessment under the sliding scale, we again turn to the report on the assessment of the Lyallpur Tehsil. Assessment of Lahore and Amritsar has also been carried out according to the new principles. The method is the same in all cases.

For the calculation of the standard demand (Lyallpur) the following commutation prices were assumed:—

		Annas per maund or Rs. per acre.
Cotton American	Annas	200
Cotton Desi	,,	168
Gur	,,	88
Maize	,,	48
Toria	,,	92
Wheat	,,	60
Wheat Straw	,,	6
Gram	,,	52
Orchards, gardens, Vegetables and Tobacco	Rs.	60
Other crops	,,	32

It is explained by the Settlement Officer that " The introduction of the sliding scale makes commutation prices paper prices, until the level of current prices rises to the level of communtation prices."

The standard index figure of Lyallpur Tehsil was worked out as follows:—

TABLE I.

INDEX FIGURE OF LYALLPUR TEHSIL.

1 Commodity.	2 Percentage.	3 Outturn in maunds.	4 Commutation prices in annas per maund.	5 Standard index, multiple of columns 2, 3 and 4.
Sugarcane ..	4	30	88	10,560
American Cotton ..	7	6½	200	9,100
Desi Cotton ..	11	6½	168	12,012
Maize ..	3	14	48	2,016
Wheat ..	37	14	60	31,080
Toria ..	6	8	92	4,416
Gram ..	8	11	52	4,576
TOTAL ..	76			73,760

The standard index of each commodity is obtained by multiplying together the percentage of matured area, outturn and the commutation price. The total standard index for the more valuable crops, representing 76 per cent of the matured area, is thus 73,760.

The Settlement Officer next works out the index figure for 1934-35 on the basis of prices current in 1933-34:—

INDEX FIGURE OF LYALLPUR TEHSIL, 1934-35.

1 Commodity.	2 Percentage.	3 Outturn in maunds.	4 Commutation prices in annas per maund.	5 Standard index, multiple of columns 2, 3 and 4.
Sugarcane ..	4	30	44	5,280
American Cotton ..	7	6½	86	3,913
Desi Cotton ..	11	6½	66	4,719
Maize ..	3	14	23	966
Wheat ..	37	14	28	14,504
Toria ..	6	8	39	1,872
Gram ..	8	11	24	2,112
TOTAL ..	76			33,366

It is assumed that there is no change in the percentage of matured area, or in the yields, but prices in 1933-34 were 55 per cent below the level of the commutation prices. The index for 1934-35 is thus, 33,366, or 55 per cent less than the standard index. If the sliding scale had been in force from Kharif 1934, 55 per cent remission would have been granted, or instead of Rs. 25,08,571 ~~lakhs~~, the actual demand to be collected would have been Rs. 11,28,856. "These figures show," remarks ~~of~~ the Settlement Officer, "how extremely generous the new system is and should remove any doubt as to the benefit which it will confer on the zamindars."

We have already seen that the standard demand is calculated on the basis of landlords' net assets. In the Assessment of the Lyallpur Tehsil costs were taken at 56 per cent of the value of gross produce; if net assets were directly defined, as we have seen,

standard demand would come down to about 14¼ lakhs, without making any reduction on account of the fall of prices.

We have seen that the existing definition of net assets works against the peasant proprietor. The same objection applies to the sliding scale. The sliding scale, after granting heavy remissions every year, will levy a tax on the peasant proprietor which in ordinary years will much exceed 25 per cent of net assets, and which will absorb the whole of net assets, and even more, when prices fall heavily.

The sliding scale completely ignores the cost factor. It is assumed that when prices fall in any proportion, cost of production will automatically fall in the same proportion.

This is wholly untrue. The charge for water, abiana, is an important element of cost. Abiana rates have never been reduced in proportion to the fall in prices.

It is not necessary to produce formal evidence to show that when prices rise or fall, the variation in costs, as a rule, is less than that in prices. It will be admitted that agricultural costs in the Punjab do not possess much elasticity.

When prices fall heavily, and costs less heavily, it is possible that net assets may wholly vanish. But the sliding scale assumes that the Zamindar always enjoys net assets, provided the fall in prices is not exactly 100 per cent. In the Lyallpur assessment the commutation price of wheat was taken at 60 annas. Assume that wheat is the only crop grown and that the price falls by 80 per cent, that is, from 60 annas to 12 annas a maund.

Government would grant 80 per cent remission. If the standard demand was Rs. 3 per acre, the land revenue realised would be 9½ annas per acre. But would any net assets be left when wheat was selling at 12 annas a maund?

The Settlement Officer, Lyallpur assumes that a 55 per cent fall in the value of gross produce is accompanied by a 55 per cent fall in costs. If costs fall to a smaller extent, Government demand must exceed one quarter net assets, as is shown by the following table:

Prices fall. The value of the gross produce falls in the same proportion. But costs do not fall in the same proportion. Therefore

Value of gross produce. Lakhs.	Costs. Lakhs.	Net assets. Lakhs.	Land Revenue. Lakhs.	Proportion of land revenue to net assets, per cent.
228	128	100	25	25
102·6 (55)	57·6 (55)	45 (55)	11·25 (55)	25
102·6 (55)	64·0 (50)	38·6 (62·4)	11·25 (55)	29·1
102·6 (55)	70·4 (45)	32·2 (68·6)	11·25 (55)	34·9
102·6 (55)	76·8 (40)	25·8 (74·2)	11·25 (55)	43·6
102·6 (55)	83·2 (35)	19·4 (80·6)	11·25 (55)	58·0
102·6 (55)	89·6 (30)	13·0 (87)	11·25 (55)	86·5
102·6 (55)	92·8 (27·5)	9·8 (90·2)	11·25 (55)	114·8
102·6 (55)	96·0 (25)	6·6 (93·6)	11·25 (55)	170·4

Figures in brackets show percentage fall in each case.

It is seen that when cost falls by 40 per cent as compared with the 55 per cent fall in the value of gross produce, net assets fall by 74·2 per cent. The proportion of Government demand to net assets in this case would be 43·6 per cent. If costs fall by 25 per cent only, net assets would fall by about 94 per cent, and if Government granted only 55 per cent remission, Government demand would amount to about 170 per cent of net assets.

It is evident that net assets are affected by variations in costs, and it is given that land revenue is 25 per cent of net assets. It follows that for granting remissions we want a formula which, while taking account of the variation in costs, will ensure that Government demand does not exceed 25 per cent of net assets. The following formula is suggested:—

$$X = 100 - \frac{100G - G\,g - 100\,C + Cc}{4L}$$

Where G = gross value of produce.
g = percentage fall in G.
C = Cost of production.
c = percentage fall in C.
L = Land Revenue.
X = Required remission in the standard demand per cent.

CHART NO. 33 THE SLIDING SCALE SYSTEM OF ASSESSMENT.

Column 1; What Govt. is entitled to take, 25% of Net Assets.

Column 2; What Govt. would take if, when prices fell by 55%, Costs fell as shown by Col. 1 in diag 2.

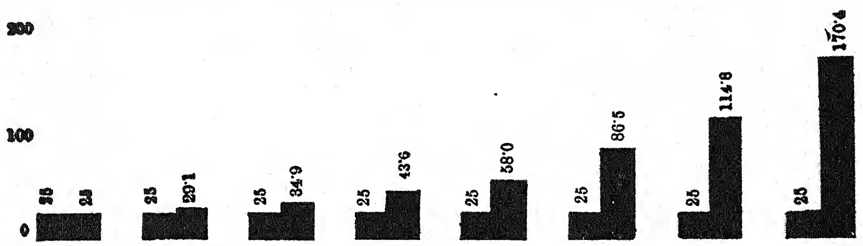


Diagram 1.

Col. 1. Fall in costs, when prices fall by 55%.
Col. 2. Fall in Net Assets.

Diagram 2.

For example suppose:

$G = 228$ Lakhs.
$g = 55.$
$C = 128.$
$c = 40.$
$L = 25.$

$$X = 100 - \frac{100 \times 228 - 228 \times 55 - 100 \times 128 + 128 \times 40}{4 \times 25}$$

$$= 100 - \frac{27920 - 25340}{100}$$

$$= 100 - 25{\cdot}8.$$

$$= 74{\cdot}2.$$

This means that if the standard demand is reduced by 74·2 per cent (according to the fall in net assets), it would be equal to 25 per cent of the net assets. From 25 lakhs the standard demand should be brought down to Rs. 6,45,000.

For this formula we require the relation of C to G, and of c to g. The standard demand cannot be found without determining G and C. In granting remissions from year to year it would be necessary to investigate the variation in costs consequent upon the fall in the gross value of the produce.

For more than one reason it is necessary to find out how costs behave when agricultural prices fall in a given proportion. An investigation into costs would shed much light on our power of international competition. It may also bring home to Government the necessity of reducing some of its dues, *e.g.* water-rates.

The relation of costs to prices would be determined once for all in the case of different types of cultivation. The investigation is not so difficult as it may seem. *The Punjab Farm Accounts* will provide valuable data for this enquiry. More data can be easily collected.

It should be apparent to the reader that unless remissions are granted according to the fall in net assets (*i.e.*, after taking the variation in costs into account) the sliding scale is no boon to the

working peasant. In fact the sliding scale is a device for taxing the subsistence of the peasant proprietor while deceiving him with limitless paper remissions.

Actual and Prospective Net Assets

Another, and perhaps the most important objection to the sliding scale still remains to be stated.

Is the calculation of standard demand in the sliding scale based on actual net assets?

The answer must be in the negative. Just as the commutation prices in the sliding scale are paper prices, the standard demand is a paper demand. The standard demand represents the demand which would be collected if the level of actual prices was equal to the commutation prices.

For reasons which have been explained before there is little or no hope of a rise of prices equal to the commutation level. The structure of world supply and world demand in regard to agricultural products has fundamentally altered.

Why should not future assessments be based on current prices, which are more normal than the absurdly high average prices of 1914-1929? Is there any thing in past practice, or the principles which have hitherto guided the land revenue policy of Government, to prevent assessments being made on the basis of actual net assets, as distinct from theoretical or paper net assets, which would never become actual?

Old Settlement practice gives no warrant for estimating net assets on the basis of prices which are 40 or 55 per cent higher than actual prices, or the prices which are likely to prevail in the coming period of settlement.

When assessment is based on the average of agricultural prices over a sufficiently long period in the past it is assumed, that the range of future prices will not be dissimiliar, (*Douie's Settlement Manual, Para.* 331). Attention may also be drawn to the view of the Government of India, Revenue and Agricultural Department, in regard to the level of assumed prices:—

"The fluctuations of prices are far too uncertain, and any conclusions as to their future course are far too hypothetical, to form a basis for assessment, and the furthest that it would be wise to go in reliance upon an anticipated rise is to use it as justification for not going lower than actually prevailing rates." (*Douie's Settlement Manual, P. 154 n*).

This is an argument against assuming prices for assessment that are too high. The tendency in settlements in the past was to err on the side of leniency, that is, to assume prices which were rather too low than too high. One is reminded of the speech in which the Chief Secretary (Governor of the Punjab and author of the sliding scale) opposed the proposal to reduce the land revenue to 25 per cent of net assets in the Punjab Council in 1928. The chief Secretary, then Mr. H. W. Emerson. said:—

"I looked up one crop, the wheat crop, and I found that the price sanctioned by Government was Rs. 2-6-0 per maund. That was the price I was told to assume for the purpose of assessment. I then looked up the prices that have ruled at Multan since the settlement was sanctioned, that is since 1920. I chose the second week of July in each year, when wheat is cheapest; I found that the price of wheat has varied from Rs. 4 to Rs. 7-8 during the years since the last settlement, and considering that the price has ranged from Rs. 7 to Rs. 4 it certainly would not be unreasonable to take the price for purpose of assessment at Rs. 4-6-0. Even that would be very low, unduly low. Supposing the price had been taken at Rs. 4-6-0. that would have been Rs. 2 per maund higher than what I was told to assume, and by merely taking that additional Rs. 2 per maund for the price of wheat in one circle, a sum of 7 lacs would have been added to the assests of the circle and a sum of 2 lacs to net assets.

"The actual assessment sanctioned by Government was Rs. 1,22,000. If the price of wheat had been taken at Rs. 4-6-0 instead of Rs. 2-6-0 it would have been possible to take 25 per cent only of the net assets. and still to have justified a larger Government demand than was actually taken with a standard of 50 per cent." " (*Punjab Council Debates, 1928 p. 1022-23*).

The practice in the past thus was to assume prices which were substantially below rather than above prevailing prices.

The standard demand in the sliding scale represents taxation of prospective, not actual net assets.

Now assessment upon actual as distinct from prospective assets had become a cardinal principle of the land revenue policy of Government. Government of India's Resolution on Land Revenue Policy (1902) says:—

"Formerly the basis of assessment was the anticipated average yield of the land during the coming period of settlement. Now it is the actual yield at the time of assessment, so that the land owner enjoys to the full any new advantage that may accrue either from his own outlay or from outside circumstances, in the interval before the next revision is made. Assessment upon actual, as distinct from prosepective assets, has thus become a cardinal principle of the land revenue policy of Government" (para 21).

Para 38 of the Resolution gives a 'summary of propositions established,' and on p. 47 this 'cardinal principle' is summed up thus:—

"(8) That assessments have ceased to be made upon prospective assets."

This 'summary of propositions established' was reproduced by the Indian Taxation Enquiry Committee of 1924-25 in their Report (para 74).

The cardinal principle of the land revenue policy of Government quoted above meant that the land revenue demand would be based on current prices, and that if prices rose during the period of settlement, the land-owner would reap the whole benefit therefrom. The sliding scale treats the famous Resolution of 1902 as 'a scrap of paper.'

We may thus summarise our conclusions regarding land revenue reform.

Land revenue, admittedly, operates as a tax on agricultural incomes. A strong case exists for the abolition of land revenue and the taxation of agricultural incomes according to a graduated scale (slab system). Agricultural incomes below Rs. 500 should

be exempted from taxation. The taxable capacity of different classes of land owners is not the same. Hence the need for graduation. The exemption limit suggested is four times lower than that for the non-agriculturist tax-payer.

If land revenue is not converted into an income-tax then a strong case exists for

(*a*) Defining net assets as profits on direct cultivation. Full and fair wages for the cultivator and working members of his family should be included in costs of production.

(*b*) Basing assessments, in accordance with past practice and an accepted 'cardinal' principle, upon actual as distinct from prospective assets.

If the sliding scale is enforced in open violation of the Resolution of 1902, then, in justice to the peasant proprietor, the comparative inelasticity of costs should be taken into account in granting remissions—or remissions should be granted according to the fall in net assets, not merely according to the difference between commutation and actual prices.

Finally a strong case exists for granting exemption from the payment of land revenue to owner-cultivators of one-plough holdings or less. It would be difficult to show that such owners earn any taxable net assets at all, over and above costs of cultivation in the accepted sense.

CHAPTER XXIII

INDIAN FINANCE

The study of Indian finance since 1913-14 may be divided into three periods (1) 1913-14 to 1920-21, (2) 1921-22 to 1935-36 (3) since 1936-37.

On the 1st of April 1921 Provincial Finance was separated from Indian finance. This was a consequence of the political changes known as the Montague-Chelmsford Reforms. The first period is therefore the pre-Reform period.

Provincial Autonomy was inaugurated on the 1st of April, 1937. The years from 1921-22 to 1935-36 may suitably be called the Reforms period, and the last period, commencing with 1936-37 the era of Provincial Autonomy.

Pre-Reform Finance.

A general view of Indian finance in the pre-Reform period is given by the following Table:—

Abstract Statement of the Revenue and Expenditure of the Government of India in India and England.
Lakhs of rupees.

Year.		Revenue.	Expenditure.	Surplus.	Deficit.
1913-14	..	1,27,81	1,24,34	3,47	..
1914-15	..	1,21,74	1,24,41	..	2,68
1915-16	..	1,26,62	1,28,40	..	1,78
1916-17	..	1,47,08	1,35,86	11,22	..
1917-18	..	1,68,99	1,56,86	12,13	..
1918-19	..	1,84,89	1,90,62	..	5,73
1919-20	..	1,97,49	2,21,14	..	23,65
1920-21	..	2,15,02	2,41,03	..	26,01

It is seen that between 1913-14 and 1920-21 Indian revenue increased from 128 crores to 215 crores or 68 per cent, and expenditure from 124 crores to 241 crores or 94 per cent.

Such a large increase in Government revenue and expenditure

could not take place without considerable changes in the tax system. It is therefore interesting to study the figures of revenue and expenditure under the main heads:—

General statement of the Gross Revenue in India and England in lakhs of Rs.

Heads of Revenue	1913-14.	1916-17.	1920-21.
Land Revenue ..	32,09	33,06	31,97
Opium	2,44	4,74	3,53
Salt	5,17	7,24	6,76
Stamps	7,98	8,67	10,96
Excise	13,34	13,82	20,44
Provincial Rates ..	27	5	6
Customs	11,34	12,89	31,90
Income-Tax	2,93	5,66	22,19
Forests	3,34	3,71	5,41
Registration	78	81	1,12
Tributes from Indian States ..	93	92	91
TOTAL	80,59	91,66	1,35,27
Railways	26,44	31,97	25,01
Total Revenue under all heads including Interest, Posts and Telegraphs, Military, Receipts and other Heads ..	1,27,81	1,47,08	2,15,02

General Statement of the gross expenditure charged against Revenue in India and England. Lakhs of Rs.

Expenditure. Main Heads.	1913-14.	1916-17.	1920-21.
Direct demands on the Revenues ..	13,91	13,99	22,50
Interest	2,27	1,76	16,38
Salaries & Expenses of Civil Departments ..	26,90	28,62	41,56
Railways	19,25	20,75	10,38
Military Services ..	31,90	39,85	94,04
Total expenditure charged against revenue, Imperial and and Provincial.† ..	124,34	135,86	241,03

† Including other heads e.g., Posts and Telegraphs, Mint, Famine Relief and Insurance (generally 150 lakhs), Irrigation etc. and adding portion of allotments to Provincial Governments not spent by them in the year, and deducting portion of Provincial expenditure defrayed from Provincial Balances.

We notice little change in the figures for land revenue. The yield of the Customs Duties increased very considerably—from 11-1/3 crores in 1913-14 to about 32 crores in 1920-21 on account of the complete revision of the pre-war tariff in 1916. The general rate of duty was raised from 5 to $7\frac{1}{2}$ per cent, and duties on special articles, *e.g.*, liquors and manufactured tobacco, were considerably enhanced. Export duties were also imposed on tea and jute, which were doubled in the following year. The import duty on cotton piece-goods was raised from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent in 1917, without any change in the excise, which remained at $4\frac{1}{2}$ per cent.

The Income-tax Act of 1886 was in force at the time of the outbreak of the Great War. This Act applied to all incomes except those derived from agriculture. Originally only incomes which were less than Rs. 500 were exempt from the tax, but the exemption limit was raised to Rs. 1,000 in 1903. Incomes between Rs. 1,000 and 4,999 paid 4 pies in the rupee, and incomes above that amount were taxed at the flat rate 5 pies in the rupee.

The need for more revenue led to changes in the Act of 1886. In 1916 progression was introduced up to Rs. 25,000, and in 1917 came the first Super-tax Act. A new Income-tax Act was passed in 1918, when the principle of assessment on income derived from all sources was adopted in the place of the old system, hitherto in force, of assessment by water-tight compartments. The exemption limit was raised to Rs. 2,000 in 1919. The combined Income-tax and Super-tax rates now amounted to 4 annas in the rupee.

As a result of these changes the yield of the Income-tax increased from less than 3 crores in 1913-14 to over 22 crores in 1920-21.

Attention may also be called to the increase in the Salt duty in 1916 from Re. 1 to Re. 1-4 per maund. The Salt duty had been reduced from Rs. 2-8 in 1888 to Rs. 2 in 1903, Re. 1-8 in 1905 and to Re. 1 in 1907.

The raising of the Customs duties and of the Salt duty and the revision of the Income-tax were the principal changes in our tax system during the War.

As regards expenditure, the principal item is Military Services. In 1913-14 military expenditure (gross) was about one-fourth of the total expenditure charged to revenue, and its amount was about 32 crores. In 1920-21 military expenditure (gross) had risen to 94 crores. The figures of net military expenditure are as follow:

Net Expenditure. In crores of rupees.

	Military Services.	Total net expenditure charged to revenue.
1913-14	29·8	83·2
1914-15	30·7	82·5
1915-16	33·4	85·7
1916-17	37·5	92·2
1917-18	43·6	108·0
1918-19	66·7	135·2
1919-20	87·0	161·6
1920-21	87·4	170·5

It is seen that the net cost of the Military Services (gross expenditure less military receipts) between 1913-14 and 1920-21 increased about three times. Of the total net expenditure in 1920-21, the net military expenditure represented more than half.

The greater part of the increase in military expenditure took place after the signing of the Armistice in November, 1918. The explanation lies chiefly in the re-organisation and modernisation of the army, but part of the increase was due to economic causes, that is the rise in the general cost of living, which also accounts for the increase in the Salaries and Expenses of the Civil Departments.

Another interesting item of expenditure is Interest. The charges (gross) on account of Interest increased from 2¼ crores in 1913-14 to 16-1/3 crores in 1920-21. The growth of interest charges was due to the growth of our Debt.

The following table shows our Permanent Debt in India and England:

Classification of Permanent Debt in India and England.
In crores of rupees.

	Railways.	Irrigation.	Ordinary.*
1911-12	305	54	49·6
1913-14	333	59	19·1
1914-15	350	62	3·33
1915-16	352	64	2·99
1916-17	354	65	5·5
1917-18	359	66	100·8
1918-19	366	67	70·6
1919-20	379	68	62·2
1920-21	377	69	97·9

The total Debt amounted to 544 crores in 1920-21, as compared with 411 crores in 1913-14, an increase of 133 crores (Railways 44 crores; Irrigation 10 crores; Ordinary Debt 79 crores).It will be noticed that Ordinary Debt was gradually being extinguished when the War broke out and, but for the War, it would have ceased to exist.

A portion of the Permanent Debt is held in England. On the 31st March 1914 the Debt in India amounted to about 146 crores and in England to £177 millions, equal to about Rs. 266 crores—thus about 65 per cent of the total Debt was held in England. During the War large amounts were raised by the Government in India, and at the end of the year 1920-21 the proportions of the total Debt held in India and England were about equal.

The largest increase in the Ordinary Debt took place in in 1917-18, in which year India made a special contribution of £100 millions to the War.

The special contribution was paid by means of an Indian War Loan which yielded £36 millions, and contracting sterling debt for the rest of the amount.

Our financial history since the outbreak of the War may be briefly summarised as follows: two deficit years (1914-15 and 1915-16) were followed by two surplus years and then followed

* Includes New Capital at Delhi and Bombay Development Loan.

a series of deficit years from 1918-19 to 1922-23. After 1923-24 India enjoyed a period of stable finance till the beginning of the trade depression.

Reforms Period 1921-22 to 1936-37. Separation of Provincial from Indian Finance.

We may now consider the important financial changes introduced from the 1st of April, 1921.

There was a close connection between Imperial and Provincial finance before the grant of financial autonomy to the Provinces. Certain heads of revenue were divided equally between the Imperial and Provincial Governments; the remaining sources of revenue were entirely Imperial or entirely Provincial. In most of the Provinces the divided heads were: land revenue, excise, stamps, income-tax and the income from large irrigation works. The entirely Provincial heads were: forests, registration, the receipts under the spending departments managed by Local Governments such as ordinary public works, police, education, medical, courts and jails. The following sources of revenue were wholly Imperial: opium, salt, customs, mint, railways, posts and telegraphs, military receipts and tributes from Native States. Like heads of revenue some of the heads of expenditure were commonly shared by Imperial and Local Governments, while others were entirely Local or Imperial. The responsibility for all outlay connected with defence, railways, interest on debt, posts and telegraphs and the Home Charges rested with the Imperial Government; the Provinces were responsible for expenditure relating to land revenue and general administration, education, the medical department, police, jails and forests. The common heads of expenditure were irrigation and ordinary public works.

The Imperial Government, further, acted as a banker to the Provincial Governments, as it kept their balances. These balances consisted of large grants made by the Imperial Government to the Provinces in the past for expenditure on education, irrigation, sanitation, agricultural and veterinary development and other similar objects. Provincial Governments could not spend the money at once and the result was the accumulation of balances.

The abolition of divided heads involved the disappearance of Provincial figures from the Indian Budget. Land revenue, irrigation, stamps and excise were made wholly Provincial, and the income-tax wholly Imperial.

The main reason for this important change in our financial system was that the political autonomy of the Provinces under the Reforms scheme would have been incomplete without financial autonomy. The authors of the Indian Constitutional Reforms thought that the Provinces should not be dependent on the Central Government for carrying out any schemes of Provincial development. They attached very little importance to the argument that the authority of the Government of India would be lowered if the Provinces were freed from the financial control which it exercised over them. On the other hand, they thought it was impossible that the old system should work successfully under the new conditions, as a large popular element had been introduced into the government of the Provinces while the Central Government was still an Official government.

As a result of the proposed financial changes a large deficit in the Indian budget was anticipated. This was to be met by annual contributions of fixed amounts from the Provinces to the Central Government. The rules framed under the Government of India Act (Sec. 45 A) in accordance with the recommendations of the Meston Committee, provided for a total Provincial contribution of 9,83 lakhs in the financial year 1921-22 as follows:—

Name of Province.	Contribution in Lakhs of Rupees.
Madras	348
Bombay	56
Bengal	63
United Provinces	240
Punjab	175
Burma	64
Central Province and Berar	22
Assam	15
Behar and Orissa	Nil
TOTAL	983

These initial contributions were levied on the basis of the net additional revenues with which each province was endowed by the new financial arrangements. It will be seen that the contribution made by Madras, the United Provinces and the Punjab was heavy, but it should be remembered that the contribution was not, as the Meston Committee put it, "some new and additional burden extracted from the wealth of the provinces." Those provinces which contributed most were also the largest gainers under the new financial scheme.

From the year, 1922--23 onwards the total Provincial contribution was to be 983 lakhs "or such smaller sum as may be determined by the Governor-General-in-Council." The percentage of this total amount to be paid in each year by each Local Government was definitely fixed.

In determining the scale of contributions, the Meston Committee took into consideration the indirect contributions of the provinces to the Government of India, and in particular, the incidence of customs duties and of income tax, the industrial and agricultural wealth of the provinces with due regard to their liability to famine, and the capacity of each province for expansion and development agriculturally and industrially.

The Provincial contributions were not intended to be permanent.

The growth of revenue of the Central Government made it possible to remit the contributions in 1927-28 with the exception of a small sum, and they were finally abolished in 1928-29.

The reforms period began inauspiciously with deficits. The deficits, in fact, started much earlier, with the year 1918-19, and ended only with the year 1923--24. The total amount of budget deficits in these five years was no less than 93 crores. Practically the whole of the deficit in 1919-20 (about 24 crores) was due to the Afghan War; a large part of the deficit in 1920-21 (26 crores)) was due to arrears of the same war.

The deficits were met by the issue of fiduciary currency against the Government's own I. O. U's and Treasury Bills. The

situation was alarming and called for drastic remedies. A Retrenchment Committee, presided over by Lord Inchcape was appointed in 1922 to overhaul expenditure. The reductions in expenditure recommended by this Committee amounted in the aggregate to Rs. 18 crores.

After a succession of deficit years a surplus was realised in 1923-24 and thereafter, till the advent of the trade depression, there were only minor changes in the tax system. Military expenditure was brought down to about 55 crores, as recommended by the Retrenchment Committee of 1922.

The financial situation, before the trade depression, could, without exaggeration, be described as eminently satisfactory. Financial stability had been attained in spite of the heavy sacrifice of revenue on the part of the Government of India—1¾ crores from the Cotton excise, 85 lakhs from import duties on Machinery, 1½ crores from Opium, in addition to about 10 crores of Provincial Contributions. In the five years ending 31st March 1928 Government were also able to undertake a very large amount of capital expenditure, chiefly in connection with railways (Rs. 69 crores and £48¾ millions).

The following is a statement of Revenue and Expenditure of the Government of India for certain years.

Revenue Principal Heads.	Accounts 1928-29 Lakhs.	Revised Estimate 1929-30 Lakhs.	Budget Estimate 1930-31 Lakhs.
Customs	4,928	5,102	5,464
Taxes on Income ..	1,670	1,710	1,800
Salt	760	673	705
Opium	327	308	272
Other Heads ..	224	228	231
Total Principal Heads ..	7,909	8,021	8,471
Railways, Net Receipts (as per railway budget)	3,749	3,707	3,810
Irrigation, Net Receipts	9	13	14
Posts and Telegraphs, Net Receipts ..	7	8	22
Interest Receipts ..	280	333	345
Civil Administration ..	101	113	106
Currency and Mint ..	288	286	289
Civil Works ..	17	24	26
Miscellaneous ..	89	92	86
Military Receipts ..	339	398	362
Provincial contributions and miscellaneous adjustments between Central and Provincial Governments ..	4	..	..
Extraordinary Items ..	105	190	32
Total Revenue ..	1,28,98	1,32,84	1,35,64
Deficit	316	..	..
TOTAL ..	1,29,29	1,32,84	1,35,64

Expenditure.	Accounts 1928-29 Lakhs.	Revised Estimate 1929-30 Lakhs.	Budget Estimate 1930-31 Lakhs.
Direct demands on the Revenue ..	402	413	436
Forests and other Capital Outlay charged to Revenue ..	4	5	6
Railways, Interest and Miscellaneous charges (as per Railway budget) ..	3,226	3,095	3,236
Irrigation	22	30	26
Posts & Telegraphs ..	82	81	93
Debt Services ..	1,562	1,652	1,782
Civil Administration ..	1,144	1,269	1,327
Currency and Mint ..	72	74	78
Civil Works ..	159	263	281
Miscellaneous ..	406	458	417
Miscellaneous adjustments between the Central and Provincial Governments ..	1	..	..
Military Services ..	5,849	5,908	5,797
Extraordinary Items ..	1	..	..
Total Expenditure charged to Revenue ..	1,29,29	1,32,49	1,34,78
Surplus ..	..	35	86
TOTAL ..	1,29,29	1,32,84	1,35,54

THE TRADE DEPRESSION

Sir George Schuster took charge of our finances in 1929 and left us in 1934. His first budget was that for the year 1929-30. Estimates of revenue and expenditure for that year showed a deficit of 120 lakhs as compared with a surplus of 30 lakhs realised in 1928-29. The Finance Member decided to draw upon the Revenue Reserve Fund for the balance of 90 lakhs. He did not think it justifiable to impose new taxation until he was convinced

that there was permanent need for it. His review of general conditions in 1928-29 showed that while they were bad in patches, there was no ground for "serious pessimism". Besides, he was new to the country and wanted time to study more fully the expenditure side of the budget as well as economic conditions throughout the country.

In his next budget speech Sir George Schuster referred to the New York Stock Exchange crisis: "The collapse seems likely to result in a period of business stagnation in America, which has already produced a serious fall in the prices of all commodities. While the effect of these events on monetary conditions in India has been apparent throughout the year under review [1929-30] the effect of the fall in prices on trade is only now beginning to be felt".

The depression, which was just beginning, produced deteriorations of revenue under Customs, Miscellaneous payments, Railways, Posts and Telegraphs and other heads. The total net deterioration was 66 lakhs, which, combined with the anticipated deficit of 90 lakhs, raised the total deficit to 156 lakhs. The deficit was exactly balanced by a payment to India of 156 lakhs in connection with the German Liquidation Account under the Treaty of Versailles.

But the gap between income and expenditure had not been really filled. There were some abnormally high receipts under particular heads (*e.g.*, interest on the Gold Standard Reserve), and windfalls under other heads (one of 30 lakhs as the net result of certain judgments in the Privy Council).

The financial position was not satisfactory in spite of the balanced budget for 1929-30. The estimates for 1930-31 showed a gap of 5,52 lakhs, and new taxation was necessary to fill the gap.

The changes in taxation were the following:

1. The export duty on rice was reduced, which was estimated to cost the Government 30 lakhs.

2. In addition to the 15 per cent revenue duty a 5 per cent protective duty with a minimum of 3½ annas per lb. on plain grey

goods was imposed on cotton piece-goods imported from foreign countries other than the United Kingdom.

3. The excise duty on kerosine was increased from 1 anna to 1 anna 6 pies, while the import duty was reduced from 2½ annas to 2 annas 3 pies.

4. The duty on sugar was increased, so as to yield an additional 1,80 lakhs.

5. The income-tax on *personal* incomes of Rs. 15,000 and upward was raised by 1 pie in the rupee and a corresponding increase was made in the super-tax in all grades. The Finance Member did not consider it desirable to impose fresh burdens on industry or commercial enterprise.

6. The old import duty on silver of 4 annas per ounce was re-introduced.

In justifying the need for fresh taxation the Finance Member said that, if things went well, the new taxes would create a margin which would enable the Central Government "to give a fair measure of assistance to the Provincial Governments in the next chapter of their history".

The budget for 1930-31, as finally pased, provided for a surplus of 86 lakhs. The revised estimates in March 1931 showed a deficit of 13,56 lakhs. "Times are bad", said the Finance Member as a preface to his business statement. A further heavy fall in the tax revenue was anticipated in 1931-32 and new taxation had to be imposed. Was this to be of a temporary or permanent nature? The Finance Member thought that of the new taxes, some at least would be permanently needed, or at least could not be abolished unless substitutes were found—for behind the temporary needs of the Central Government there lay a permanent need for more resources for the Provinces.

The most important of the Customs sur-charges was that of 5 per cent on the general revenue schedule of 15 per cent. The 5 per cent sur-charge was placed on imported cotton goods also. The duties on special articles as alcoholic drinks and sugar were considerably enhanced. The additional yield of the Customs was estimated at 9·82 crores.

Changes were also made in the income-tax and the super-tax, but the taxable minimum income for the income-tax, Rs. 2,000, was not lowered.

The duty on silver was increased from 4 annas to 6 annas per ounce. The re-introduction of the duty of 4 annas in the budget for 1930-31 had not checked the consumption of silver.

The net result of these changes was to give the Finance Member a surplus. Still the Finance Member added a word of caution: " Expenditure and revenue returns will have to be carefully watched, and if conditions show signs of deterioration, it may be necessary to take interim measures to counteract that. It is vitally important to the financial stability of the country that we should not find ourselves at the end of another year with a large realised deficit."

The budget, as, finally passed, provided for a small surplus of 1 lakh.

There was a supplementary budget at the end of September 1931. The returns of the 5 months, from 1st April to the end of August, showed a heavy fall in revenue. Taking into account the anticipated surplus of 1 lakh, the net deficit at the close of 1931-32, was estimated at 19,55 lakhs. The increase in taxation took the form of a sur-charge of 25 per cent on the rates in force, lowering of the exemption limit of the income-tax to Rs. 1,000, curtailment of the list of goods imported free of duty, the imposition of special rates of duty on some imports (*e.g.*, boots and shoes and artificial silk piece goods) and an enhancement of postal rates.

The justification for the proposals for new taxation was that India had abandoned the gold standard, and financial stability was essential if public confidence in the currency was to be maintained: " for once a country's currency is cut adrift from the moorings of a stable standard such as Gold, it is particularly necessary to avoid getting into any sort of inflationary position resulting from a failure to balance current expenditure with current revenue." In the concluding portion of his speech the Finance Member again referred to the connection between budgetary deficits, note printing and collaps of confidence in a country's currency and said: " We

want to erect a solid barrier against the possibility of India getting on to that slippery slope. That is the essential justification for our proposals."

The new proposals were meant not only for the remaining months of 1931-32 but also for the whole year 1932-33. The two years ending March 31, 1933 were to be considered together. It was anticipated that the year 1931-32 would close with a deficit of 10·17 crores, but that in the following year a surplus of 5·23 crores would be realised. When the position was examined in March 1932, it was found that deterioration in revenue had increased the deficit in 1931-32 to 13·66 crores; the surplus in 1932-33 was also not expected to exceed 2·15 crores.

A year later, the actual figures for 1931-32 showed an improvement of about 2 crores, while the surplus, realised in 1932-33 was 2,17 lakhs; so that on the combined result of the two years there was a deficit of 9,58 lakhs. On the other hand, provision had been made in these two years for reduction or avoidance of debt amounting to 13,73 lakhs. On the combined result of the two years then there was a surplus of receipts over expenditure other than reduction of debt amounting to 4,15 lakhs.

The changes in taxation in the budget for 1933-34 were of minor importance, relating to import duties on uppers of boots and shoes, and artificial silk goods and mixtures. A surplus of 4,29 lakhs was realised in 1933-34, of which 129 lakhs was set apart for Bihar earthquake relief, and the remaining 3 crores utilised for debt reduction.

A deficit was anticipated in 1934-35, and this was met by Excise duties on sugar and matches, re-adjustment of tobacco duties and reduction in the import duty on silver from 7½ to 5 annas. As a result of these changes the anticipated deficit of 153 lakhs was converted into a small surplus.

The actual surplus realised in 1934-35 turned out to be much larger than had been anticipated—389 lakhs. Out of this sum Government set aside 100 lakhs for distribution to the Provinces to be spent on schemes for the economic development and improvement of rural areas.

Out of this crore, 10-15 lakhs were earmarked for placing the co-operative movement 'on sound financial foundations'. The remaining sum was distributed among the Provinces on the basis of rural population. Two conditions were imposed—(*a*) the grant was to be spent on schemes approved by the Government of India which would improve the economic condition of the people, and (*b*) that it would be devoted only to schemes which the Local Government would not otherwise have been able to undertake in the immediate future.

In addition to this grant of 100 lakhs to the Provinces, the Government of India, out of the realised surplus, made a special grant of 40 lakhs to their Reserve in the Road Development Fund; a sum of Rs. 25 lakhs was set aside for schemes of development in the N.W.F. Province, to be spent mostly on the construction of roads in the tribal area; a sum of 70 lakhs was provided for the development of broad-casting; 93 lakhs were provided for civil aviation, and 36 lakhs were reserved for the transfer of the Pusa Institute to Delhi. The remainder of the surplus, 75 lakhs was to be used for debt reduction.

For 1935-36 again, a surplus of 150 lakhs was anticipated. This was to be utilised for tax-reduction. To make the smuggling of silver unprofitable the import duty on silver was abolished; the surcharges of 25 per cent on income-tax and super-tax imposed in the supplementary budget of 1931 were reduced by one-third. These tax reductions reduced the anticipated surplus of 150 lakhs to 6 lakhs.

The surplus realised in 1935-36 turned out to be 242 lakhs. Out of this 35 lakhs were spent on grants to the Imperial Council of Agricultural Research, the Indian Research Fund Association for the prevention and cure of malaria, and for developing cottage and small-scale woollen industries. The remaining sum of 197 lakhs was transferred to the Revenue Reserve Fund to help out the finances of the first year of Provincial Autonomy.

For 1936-37 a surplus of 205 lakhs was anticipated. This was utilised for abolishing the tax on income between Rs. 1,000 and Rs. 2,000, reducing to one-half the existing surcharge on super-

tax and income-tax, so that the remaining surcharge became one-third of the original, and granting a concession in postal rates. These changes almost completely absorbed the anticipated surplus.

Actually the revised estimates for 1936-37 showed a deficit of 197 lakhs instead of the anticipated small surplus of 6 lakhs. The deficit was largely due to the heavy fall in the customs receipts from imported sugar (145 lakhs). The budget figures for 1937-38 revealed a gross deficit of 342 lakhs (Revenue 79,99 lakhs and expenditure 83,41 lakhs). But allowing for 1,84 lakhs in the Revenue Reserve Fund the net deficit was reduced to 158 lakhs.

The financial situation gave cause for dissatisfaction. In 1936-37 the Finance Member had prophesied that with the help of a Revenue Reserve Fund of Rs. 2 crores the Central Government could bear the cost of Provincial Autonomy in 1937-38, and he had hoped that the normal growth of revenue thereafter would provide for the liabilities which the Central Government would have to incur from year to year. But the Revenue Reserve Fund turned out to be somewhat less than he had expected, and revenue had shown a distinct falling off. The Finance Member noted the following 'disquieting' factors:—

1. The restriction of rural credit caused by the Indebtedness Bills had for the time being affected the purchasing power of the cultivator 'with the inevitable effects on revenue'. It had also diminished the money-lenders' profits. The Finance Member, however, considered this effect to be temporary. In the long run these measures were 'bound to increase rural prosperity', and the money-lender would, when prosperity returned, be able to employ his idle funds.

2. Silver Imports were increasing at the cost of imports of goods subject to a higher rate of duty.

3. The height of the protective and possibly of the revenue duties as well was bringing about the inevitable diminishing returns.

As against these 'disquieting' factors there were certain 'encouraging signs' which did not escape the Finance Member's attention. Railway traffic returns were improving, the prices of primary products were rising and there was an 'almost phenomenal increase in exports of merchandise'. Exports of Indian

merchandise, in fact, increased from about 161 crores in 1935-36 to 196 crores in 1936-37. In 1937-38, however, they fell to about 181 crores (chiefly on account of the separation of Burma).

On the whole the Finance Member took a hopeful view of the situation. He saw no reason 'why the Niemeyer prognostications should not be realised in the long run'. The Niemeyer programme could be fulfilled in 'the nearer future' by a modest addition to the resources of the Centre of Rs. 1½ or Rs. 1¾ crores. How was this extra amount to be found?

It was found by increasing the sugar excise from Rs. 1-5 to Rs. 2 per cwt. The import duty on sugar was accordingly fixed at Rs. 7-4 per cwt. plus the excise at the enhanced rate. Secondly the duty on silver was raised from 2 annas to 7 annas per oz. The additional revenue thus obtained was Rs. 165 lakhs. The net deficit of Rs. 158 lakhs for 1937-38 was thus converted into a small surplus of Rs. 7 lakhs.

The surplus realised, according to the revised estimates for 1937-38, was 75 lakhs, thanks mainly to the improvement in railway traffic and customs receipts. The liabilities incurred by the Central Government in 1937-38 turned out to be greater than was anticipated, 251 lakhs in the case of Burma and 198 lakhs in the case of the Provinces, or Rs. 449 lakhs in all.

The distribution of Income-tax receipts under the Niemeyer Award began in 1937-38. The net surplus of the railways this year was expected to be 283 lakhs. This sum was added to the distributable Income-tax, 11,55 lakhs, which gave a total of 14,38 lakhs. Deducting 13,00 lakhs from this total, 138 lakhs was the net amount which was available for distribution among the Provinces.

The Finance Member, with justificable pride, dwelt on the sacrifices that the Central Government had made for the sake of the Provinces. Including the abandonment of the contributions under the Meston Settlement, the Centre had relinquished to the Provinces more than 20 crores of revenue, and under the Niemeyer Award it was under obligation to release a further 5 to 6 crores.

There was no addition to tax burdens in the budget for 1938-39. The revenue was estimated at 85,92 lakhs (including 75

lakhs of the balance for 1937-38) and expenditure at 85,83 lakhs, leaving a small surplus of 9 lakhs. The budget, in the words of the Finance Member, preserved the 'status quo', and might be called a 'dull one'. But, he added, "it will be something to have achieved dullness in a world which is full of intense excitements—many of them of an extremely undesirable character".

He realised that the greatest care would be necessary in conserving the Central revenues if the Niemeyer programme was to be fulfilled, and stated that there could be 'no immediate expectation of a devolution to the Provinces out of our present central resources beyond that provided in that programme'.

The total provision for the Defence Services (Military expenditure) in the budget for 1938-39 was Rs. 45,18 lakhs.

The British Government have made a contribution of 80 lakhs (in 3 equal instalments) towards the capital cost of mechanising the British cavalry and infantry. The British Government have also agreed to forego the direct annual contribution of £1,000,000 paid by India towards the naval defence of India. The conditions are that the Government of India maintain a sea-going fleet of not less than six modern escort vessels to co-operate with the British Navy for the deffence of India and, in addition, fulfil their responsibility for local naval defence of Indian ports.

Budget for 1939-40

For 1939-40 the estimated revenue is 82,70 lakhs and expenditure 82,65 lakhs, leaving a surplus of 5 lakhs. This surplus is the result of doubling the import duty on raw cotton. "I shall no doubt be told", said Sir James Grigg, "that by this measure I am indulging my usual vendetta against an indigenous industry". But Government wanted more revenue, and raw cotton is 'one of the extremely few items of the customs tariff which shows an expanding yield'; it is also hoped that the duty will promote the growing of the longer staples of cotton in India. Indian mills are at present importing over 700,000 bales of these varieties a year.

The net gain from the adoption of the 'slab system' will be 76 lakhs. There will be a decrease in the income-tax paid by individual assessees of 93 lakhs, but it is more than counter-

balanced by increases of 117 lakhs in super-tax from individuals and of Rs. 31 lakhs in income-tax and Rs. 21 lakhs in super-tax from companies.

The scale of rates is that given in an appendix to the Income-Tax Enquiry Report of 1936. But Hindu undivided families with more than one adult married male will be treated in the same way as other Hindu undivided families, that is to say, the rates of tax will be the same for them as for individuals. Secondly it is proposed to abolish the Rs. 50,000 exemption limit for Company super-tax.

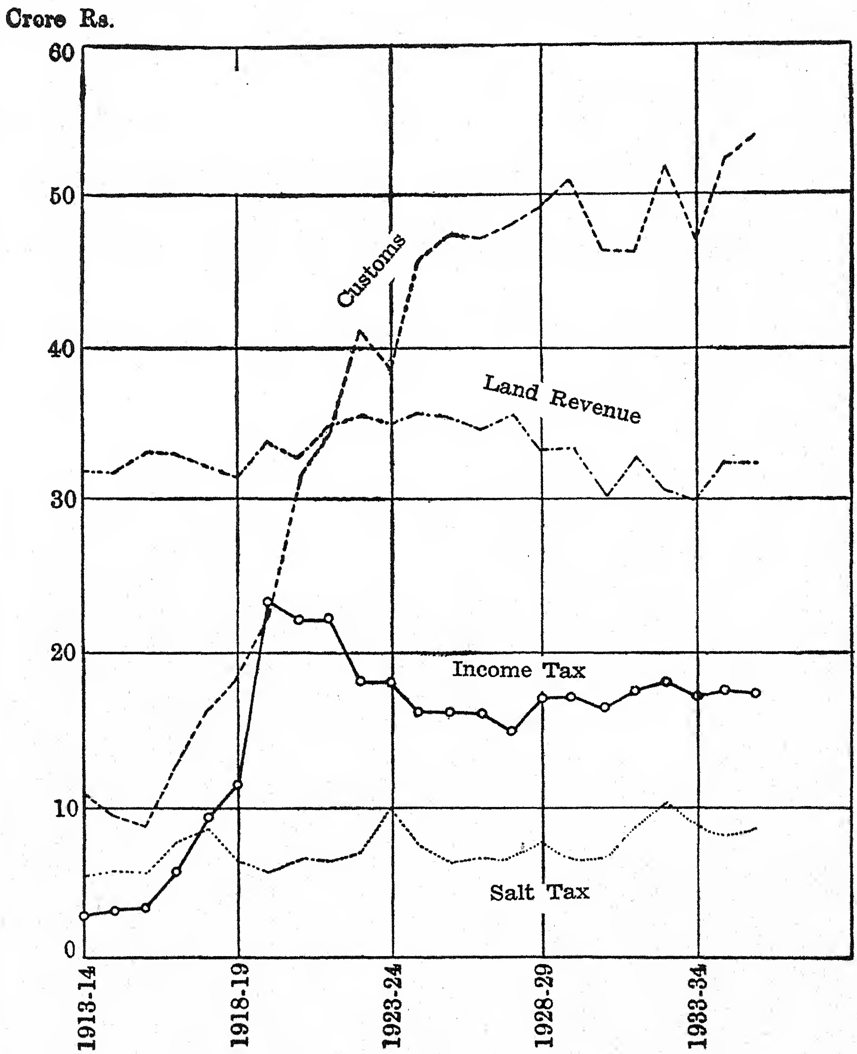
Revenue of the Central Government in Lakhs.

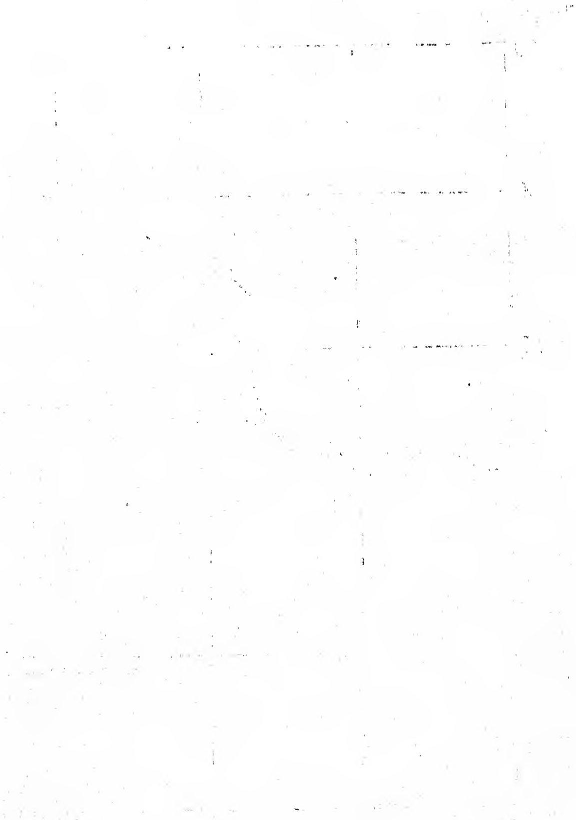
Principal Heads.	Accounts 1936-37.	Revised estimate 1937-38	Budget estimate 1938-39
Customs	..	43,93	43,81
Central Excise Duties ..	51,45	7,74	7,76
Corporation Tax	..	1,50	1,55
Taxes on income other than Corporation Tax ..	15,34	12,12	12,42
Salt	8,81	8,35	8,35
Opium	48	46	45
Other Heads	97	1,00	1,07
Total Principal Heads ..	77,04	75,11	75,41
Railways, Net Receipts ..	31,50	32,72	32,57
Irrigation	6	1	1
Posts and Telegraphs ..	93	1,15	74
Debt Services	40	58	66
Civil Administration ..	96	100	100
Currency and Mint ..	1,19	85	67
Civil Works and Miscellaneous Public Improvements ..	31	32	31
Miscellaneous	1,71	137	155
Defence Services	5,72	532	560
Contributions and Miscellaneous adjustments between Central and Provincial Governments			
Extraordinary Items ..	67	414	375
Total Revenue	119,21	122,57	122,28
Deficit	179	..	..
TOTAL ..	121,00	122,57	122,28

Expenditure of the Central Government in Lakhs.

Principal Heads.	Accounts 1936-37.	Revised estimate 1937-38	Budget estimate 1938-39
Direct demands on the revenue . .	4,24	3,75	4,33
Capital outlay charged to Revenue	1	. .	1
Railways, Interest and Miscellaneous charges (as shown in Railway budget) . .	31,50	29,90	30,02
Irrigation	10	11	11
Posts and Telegraphs . .	82	77	80
Debt Services	12,56	14,84	14,62
Civil Administration . .	11,27	10,63	11,31
Currency and Mint . .	38	39	37
Miscellaneous Public Improvements	2,52	2,59	3,12
Miscellaneous	3,95	3,86	3,63
Defence Services	50,67	52,54	50,78
Contributions and Miscellaneous adjustments between Central and Provincial Governments . .	2,78	3,16	3,05
Extraordinary Items . .	19	3	2
Total Expenditure charged to Revenue	121,00	122,57	122,18
Surplus	. .	. .	9
TOTAL . .	121,00	122,57	122,28

CHART NO. 34 REVENUE 1913—14 TO 1935—36.





CHAPTER XXIV

PROVINCIAL FINANCE

Sir Otto Niemeyer reviewed 'the present and prospective budgetary positions' of the Central and Provincial Governments in 1936 and before the introduction of Provincial Autonomy under the Government of India Act of 1935. It was recognised that at the inauguration of Provincial Autonomy 'each of the Provinces should be so equipped as to enjoy a reasonable prospect of maintaining financial equilibrium'; the chronic state of deficit into which some Provinces had fallen was also to be ended. To achieve these aims Sir Otto Niemeyer was (i) to determine the extent to which the Provinces would need special assistance, (ii) to consider how far the Central Government was in a position to render such assistance without jeopardizing its own solvency, and (iii) to suggest to what extent and when it might be possible for the Centre to place additional resources at the disposal of the Provinces out of the proceeds of taxes on income.

Sir Otto found that the Central and Provincial Governments had gradually recovered from the effects of the economic depression, though recovery in the case of the Provinces was far from complete. The Central Government was enjoying surpluses as compared with deficits of over 11 crores in each of the years 1930-31, and 1931-32 in spite of the abolition of pay cuts, and the remission of most of the increase in rates of income-taxes and in spite also of the annual surrender since 1934-35 of nearly 2 crores of jute export duty to the jute-producing Provinces. The Provinces also showed a very substantial improvement over the deficit position of 1930-31, partly due to the financial assistance from the Centre.

Sir Otto, on the whole, took a favourable view of the financial situation. "Consumption taxes in the Provinces", he wrote, "might reasonably be expected to rise with consumption taxes (Customs and Excise) at the Centre"; he anticipated some expansion of Provincial expenditure from the recovery of Provincial

resources, " not all of which are, or need be static ". He concluded that, given prudent management of finances, adequate arrangements could be made ' step by step, to meet the financial implications of the Constitution,' and saw no reason ' why a cautious but steady advance should not be achieved.'

His examination showed that some Provinces were intirisically better off than others, or needed less assistance from the Centre than others. The Provinces which stood most in need of help were Bengal (' clearly on a low standard '), Bihar and Orissa (' poorest Province in India '), Central Provinces and the United Provinces. The immediate difficulties of the United Provinces were considerable. Sind and Orissa, the new Provinces, had ' special problems of their own '.

Bombay received annual relief to the extent of about 90 lakhs from the separation of Sind; and Madras and Bihar about 20 lakhs and 8 lakhs respectively from the separation of Orissa. " Madras, Bombay and the Punjab ", said Sir Otto " have certainly not the lowest administrative standards in India ". He might have added that the Punjab was justly proud of possessing the highest administrative standards in India.

Irrespective of the ultimate allocation of Taxes on Income Sir Otto recommended assistance of the following approximate annual amounts to the Provinces: Bengal 75 lakhs, Bihar 25 Lakhs, C.P. 15 Lakhs, Assam 45 Lakhs (apart from 7 Lakhs in respect of Assam Rifles), N.W.F.P. 110 lakhs, Orissa 50 lakhs (plus 19 lakhs non-recurrent), Sind 105 lakhs (plus 5 lakhs non-recurrent, United Provinces 25 lakhs.

The subvention, in the case of Sind, is to remain at 105 lakhs for a period of 10 years (*i.e.*, till 1946-47 inclusive) ; it will then diminish by 25 lakhs a year for 20 years, by 40 lakhs a year for the next 5 years, by 45 lakhs a year for the next succeeding 5 years, and thereafter until the whole barrage debt is repaid by 50 lakhs a year. When the debt has been repaid (*i.e.*, in about 40 years from funding in 1942) any remaining portion of the subvention will cease.

The total assistance, as shown above, amounted to 450 lakhs.

As against this sum, 258 lakhs were already provided in the budget of the Government of India for 1936-37 (N.W.F.P. 100 lakhs, Orissa 50 lakhs, Sind 108 lakhs). The additional cost to the Centre was thus about 2 crores annually. To this another sum of 2¾ crores was to be added—this was the loss to the Central revenues due to the separation of Burma. Sir Otto thought that the Central Government could bear this burden, but he made it clear that in the next financial year there was little scope for 'relaxation of revenue burdens' unless economic conditions unexpectedly improved.

Further he recommended the cancellation of all debt contracted with the Centre prior to 1st April, 1936, of the following provinces:—Bengal, Bihar, Assam, N.W.F.P. and Orissa. In the case of the Central Provinces, deficit debt as on 31st March, 1936, and approximately 2 crores of pre-Reform debt was to be cancelled. The annual saving to the Provinces was estimated as follows:—Bengal 33 lakhs, Bihar 22 lakhs, Assam 15½ lakhs, N.W.F.P. 12 lakhs, Orissa 9½ lakhs, C.P. 15 lakhs.

The jute producing Provinces already received 50 per cent of the net produce of the Jute Export Duty. Sir Otto recommended an increase of 12½ per cent in their share. This meant an additional 42 lakhs for Bengal, 2½ lakhs for Bihar, 2½ lakhs for Assam and over ¼ lakh for Orissa.

To complete the required assistance to the Provinces the following grants-in-aid were charged on Central Revenues: United Provinces 25 lakhs (for a fixed period of 5 years), Assam 30 lakhs, N.W.F.P. 100 lakhs (subject to reconsideration at the end of 5 years), Orissa 40 lakhs (with 7 lakhs additional in the first year, and 3 lakhs additional in each of the next four years) and Sind 105 lakhs (for 10 years with 5 lakhs additional in the first year, then falling as stated above until the grant ceases entirely).

THE INCOME-TAX

Of the total receipts, amounting to about 16 crores in 1936-37 from all forms of Income-Tax (including Corporation Tax), Sir

Otto Niemeyer fixed 12 crores as the amount divisible between the Centre and the Provinces (allowing for loss on account of the separation of Burma, cost of collection, and the portion of the receipts pertaining to the wholly Federal heads of Corporation Tax, Chief Commissioners' Provinces and Federal emoluments). He recommended an equal division of 12 crores between the Centre and the Units. But he recognized that in years immediately following the introduction of Provincial Autonomy, the Centre, in the interests of its own financial stability, could not relinquish a further six crores of its resources. He thought that the Centre would be able to consolidate its position in about 5 years; during this initial period he allowed the Centre to retain, in any year, out of the assigned 50 per cent share of the divisible Income-Tax receipts, the whole or such sum as was necessary to bring the proceeds of the 50 per cent share accruing to the Centre together with any General Budget receipts from the Railways up to 13 crores, whichever was less.

Sir Otto added two comments on these recommendations. He found that the rates of Income-Tax and Super-Tax in India, especially on the higher incomes, were 'by no means excessive.' He favoured the retention of the remaining surcharge on the Income-tax, and the imposition of higher rates on the wealthier commercial classes. Secondly, he recommended 'the thorough going overhaul of railway expenditure' and co-ordination of various modes of transport, for the position of the railways was 'frankly disquieting.'

Sir Otto thought that within about ten years from the commencement of Provincial Autonomy the Provinces would be enjoying their full share in the divisible Income-Tax receipts.

The scale of distribution among the Provinces was fixed partly on residence and partly on population. The percentage share of the different Provinces in Income-Tax is Madras 15, Bombay 20, Bengal 20, U. P. 15, Punjab 8, Bihar 10, C. P. 5, Assam 2, N. W. F. P. 1, Orissa 2, Sind 2.

THE PUNJAB AND THE NIEMEYER AWARD

In an Express letter dated 30th April, 1936, the Punjab Government bitterly commented on the Niemeyer Award. Ignoring non-recurrent grants, relevant forms of assitance from Central Revenues proposed or already given were (*i*) cash subvention, (*ii*) 50 per cent Jute Duty (*iii*) additional 12½ per cent jute duty (*iv*) benefit from debt adjustments and (*v*) prospective shares from Income-Tax. The Punjab Government calculated that out of recent and immediate relief amounting to 822 lakhs, the Punjab would get 1·7 lakhs, or one-fifth of one per cent; out of a total relief estimated at 14,22 lakhs at the end of 10 years, the Punjab would get 49·7 lakhs, or 3·5 per cent.

So far as immediate relief was concerned, the Punjab, far from gaining anything, would suffer a net loss. This was because the Government of India were withdrawing an assignment of 7 lakhs which the Punjab received on account of compensation for loss of Excise duty on Punjab liquors consumed in Delhi and the North-West Frontier Province: "In contrast with this" wrote the Punjab Government, "every Province in India will get immediate relief, varying from the enormous sum of 243 lakhs in the case of Bengal to 21 lakhs in the case of Central Provinces."

No direct subvention was given to Madras and Bombay either. But these Provinces got direct relief from the separation of Provinces and additional assistance from debt transactions. "The system of direct or indirect relief," the Punjab Government compalined, "is therefore universal, there being one exception only, and that the Punjab." In paragraph 7 of their letter, the Punjab Government took an extremely depressinng view of the financial situation:—

"The position therefore is that unless agricultural prices rise, of which there is little, if any hope, the Punjab Government must have increasing deficits, unless they again carry out drastic retrenchment. This can only be done by stopping expansion in all directions, and by cutting down existing standards in many branches of the Administration. There is no question of starting on an 'even keel,' or of the Punjab having, to some extent, 'to progress more slowly'

(paragraphs 4 and 10 of Report). It must go back unless it gets assistance.

The Punjab did not get the assistance it demanded. But, to judge from the budget estimates for 1938-40, the Punjab is not going back in any sense. In the course of his budget speech (1938-39) the Finance Minister, while referring to increased expenditure on Beneficent Departments, said: "We touch to-day a higher provision for the nation-building services than ever before in the financial history of this Province." He claimed that in nation-building activity the Punjab easily led the Other Provinces. That it does so by over-taxing the cultivating proprietor is another matter altogether.

Provincial Review. Punjab.

Actually the Government of India made a contribution of over 11 lakhs to the Punjab in 1938-39. This, with the revenue surplus of 1936-37 and 1937-38, was used to create a special Development Fund of 55 lakhs. The object of this Fund is the prosecution of an intensive policy of Development and reconstruction mainly in rural areas.

Estimated revenue in 1938-39 was about $11\frac{1}{2}$ crores as against revenue expenditure of over 11-1/3 crores; in 1930-31, revenue was a little over $10\frac{1}{2}$ crores, and expenditure 11 crores. Of the total estimated expenditure in 1938-39, the Beneficent Departments accounted for 3·28 crores; in 1921-22 this expenditure stood at 1·70 crores,—much more attention is being paid to Beneficent Departments than ever before. That is so not only in the Punjab, but, as we shall presently see, in the other Provinces as well.

Attention may be drawn to the main constructive activities of the Punjab Government. The Haveli Irrigation Project has been completed. The road programme is being carried forward with increased speed, special attention being paid to village roads. Substantial expansion in the supply of Hydro-electric energy is being provided for. Special stress is being laid on girls' education; vernacular education is being encouraged, while proposals are

being matured for the extension of the scope of the primary course. Increased grants are made for improving and equipping hospitals and dispensaries, and for fighting disease. The interest of animal husbandry are specially kept in view, and the number of veterinary hospitals is being increased. Co-operative staff has been strengthened and the work of consolidation of holdings is being pushed forward with increased energy. The Panchayat system of the country is being strengthened by the appointment of additional Panchayat Officers. For the relief of indebtedness it is proposed to establish one Debt Conciliation Board in every district. Industries have not been neglected. An industrial survey of the Province has been projected; the existing industrial schools are to receive additional equipment, and Government will persue a more liberal policy in the matter of loans to industrialists.

The Punjab has a net consolidated debt of 17 crores repayable in 45 years in biennial equated instalments; in addition there is a further debt of 10 crores excluded from consolidation. The Punjab's own public debt is over 4 crores.

In the year 1937-38 the net benefit that accrued to the Punjab from the consolidation of debt was a little over 2-1/3 lakhs.

Bengal

Bengal is a substantial gainer by Provincial Autonomy. Its immediate relief amounts to 243 lakhs annually. As we have seen, all Bengal's debt contracted with the Centre prior to 1st April, 1936, has been cancelled. It was one of the Provinces that had fallen into a state of chronic deficits; in 1930-31 the deficit amounted to 1¾ crores. In 1938-39 Bengal had an estimated revenue of 13,13 lakhs, (1930-31, 966 lakhs), and an estimated expenditure of 13,24 lakhs (1930-31, 11,41 lakhs). Thus there is substantial increase in expenditure and a more substantial increase in revenue.

As compared with 1937-38, there was an increase of 100 lakhs in expenditure, chief increases being, civil works 21 lakhs, education 17 lakhs, Punblic Health 14 lakhs, Debt Consolidation 12 lakhs, Agriculture 5 lakhs and Industries 4 lakhs.

Incidentally, the cost of Legislative Bodies (there are two houses in Bengal) has very considerably increased. In 1930-31 the cost of the Bengal Legislative Council was Rs. 1,51,000; the budget figure for both Houses in 1937-38 was Rs. 3,14,000, while that for 1938-39 it was no less than Rs. 13,32,000 (Legislative Council Rs. 2,45,000; Assembly Rs. 10,87,000). The cost of Members of the Assembly is Rs. 4,26,000 and of their Travelling Allowances 45 lakhs.

Among the constructive activities of the Government of Bengal we notice first the work of Debt Consolidation Boards, appointed for scaling down debts. Since the inauguration of Provincial Autonomy, 1,631 such Boards have been created. It was proposed to create 2,000 more new Debt Conciliation Boards in 1938-39.

In regard to agriculture, scientific methods of cultivation are encouraged. An Agricultural Institute is to be established at Dacca, and a District Agricultural Farm is to be started at Midnapore. Union Board Farms have been organized for demonstration of improved farming methods. Marketing facilities are being improved. A regulated market for jute is to be established, and an egg-grading scheme is being considered.

To facilitate adjustment of supply to demand provision has been for a jute census.

For the encouragement of small industries a scientific Advisory Council is to be organized. The cottage industries which are specially receiving attention are varnishes, enamels, lacquers, Japans, oil-colours, paints and printers' ink. Grants-in-aid to technical and industrial schools have been increased. The Bengal Tanning Institute and The Silk Technological Institute are to be re-organized. Bengal has also 8 peripatetic weaving schools. Demonstration parties demonstrate improved methods of cotton spinning and silk reeling.

Enquiry is being made into the possibilities of generating and supplying electrical power on an extensive scale and distributing the energy at a moderate charge throughout the county side.

An industrial and commercial museum is being organised. Moving exhibitions are intended to popularise indigenous goods.

Rural water-supply is being improved, anti-malaria schemes are being developed, measures are being concerted to control leprosy, and effort is being made to establish " a net-work of rural treatment centres " for the benefit of village people.

Bengal wants more revenue for nation-building works—" The time is near at hand," said the Finance Minister (Budget for 1938-39) " when we shall have to find new revenues if we are to advance our programme beyond the mere beginnings of national reconstruction that we are fortunately able to finance at the moment from our existing resources."

SIND

Sind started its career as a new Province burdened with a heavy load of debt. The debt is of two classes, (*a*) the Lloyd Barrage and Canals Construction Debt, Rs. 24, 89 lakhs, and (*b*) the consolidated debt, Rs. 4,18 lakhs. The interest charges on the Barrage Debt amount to Rs. 116 lakhs annually. The repayment of the debt will begin in 1942 by means of annual instalments of Rs. 75 lakhs, in addition to the interest charge of at least a crore of rupees.

The only new source of revenue discovered in Sind is a tax on horse-race betting.

The cottage industries which are being encouraged are handloom weaving, dyeing, soap-making, lacquer-work, pottery, tanning, and fishing. Data regarding unemployment are being collected. A smaller road programme is being developed. In regard to agriculture, efforts are being made to supply the best strains of seed for the main crops and to multiply improved wheat seed and Sind Sudhar cotton seed on a larger scale than before. Touring mechanical assistants advise zamindars in regard the use of improved agricultural implements. A sum of Rs. 15,000 was provided in the budget for 1938-39 for the construction of model villages. The grant does not seem to be excessive. The Government were considering the institution of a ' policy of temperance reform consistent with the maintenance of the public revenues.' The price of Charas has been increased, and also that of country and

foreign liquor. In addition country liquor has been made of 'weaker strength.' Is that fair to those who drink? It might be considered cheating.

On account of its heavy load of debt, the Government of Sind have to move cautiously. In the course of his budget speech (1938-39) Sir Ghulam Hussain Hidayat Ullah said: "Now what is our debt? 29 crores, that is nearly 12 times our average revenue. Now Sir, under this heavy debt load of 29 crores and a revenue of 2,40 crores, if we run at motor-car speed, we will only precipitate our fall." He wanted to be popular, like his critics, the Opposition: "But I will not say 'After me, the deluge.' If I introduce fanciful schemes, it will lead to our break-down, and then the fault will not be mine."

Bombay

In Bombay, economy has been effected by cuts in allowances (2 lakhs), in contigencies (3 lakhs), and in grants to local bodies (10 lakhs).

New sources of revenue tapped are a tax on tobacco levied in the form of a flat license fee for all retailers and a higher fee for whole-salers, and a levy of 3 pies per unit on the consumption of electricity in certain cities. The Government are considering the levy of a tax on the whole-scale sales of a small number of special articles. It has been found difficult to impose a graded tax on agricultural incomes on account of the danger of a further fractonization of moderate-sized agricultural holdings.

Government propose to give to individuals who may be landless, or whose holdings are uneconomic, small and scattered tracts of certain waste-lands. How much waste-land is available for this purpose was not stated.

The Anti-Drink Campaign was estimated to cost Bombay 31·50 lakhs in 1938-39.

The objects on which considerable sums are being spent are: the supply of drinking water for villages (10 lakhs), assisting medical practitioners to settle down in villages (2 lakhs), rural medical aid institutions, promotion of Ayurvedic and Unani

education, development of cottage industries, and the feeder-road system (7 years' programme) which will bring every village on a *pucca* road. Government propose to initiate certain industries to demonstrate their success before handing them over to the public. " The paper-pulp industry may be an instance in point."

Industrial labour has not been neglected. There was a provision of 4½ lakhs in the budget for 1938-39 for improving labour-housing accommodation, and of 1 lakh for creating social amenities for labourers who will occupy the Government Chawls. Non-Official workers have been engaged to look after the welfare of tenants in the Worli Chawls. The Factories Act and the Payment of Wages Act have been extended to the smaller factories employing ten or more labourers. Creches have been made compulsory in all factories employing more than 100 female labourers. Government also propose to introduce legislation to regulate and settle trade disputes.

A new experiment is that of the training of a Volunteer Police Force.

It seems that the Congress Finance Minister, on assuming charge of the finances of the Province, had high hopes of relieving the burden of taxation on the poorer classes of peasants by taxing the wealtheir classes. The Government were ultimately to cease taxing uneconomic holdings, and a graded tax on the higher agricultural incomes was to be imposed. Further, public utility services, *e.g.*, electricity, were to be nationalised, and profits appropriated ' for the good of the community as a whole.' The Finance Minister did not take long to discover his limitations. The critics, however, did not fail to remind the Congress Government of its election pledges. Mr. S. V. Parulekar, in the course of the debate on the budget for 1938-39 said: " 65 per cent of the population is composed of peasants. First, let me take the class of cultivating owners. Has the budget reduced the burden of land revenue on uneconomic holdings? No, nor does the Government propose to do it in the near future........the Budget is a betrayal of the promises made by the Congress Party in their Manifesto."

The Manifesto had talked of ' giving immediate relief to the

smaller peasantry by a substantial reduction of agricultural rent and revenue now paid by them, and exempting uneconomic holdings from payment of rent and revenue."

Naturally Dr. B. R. Ambedkar, the well-known Depressed Classes leader wanted to know why the Finance Minister had 'eaten up his words'? "Who has compelled him to do it? (Hon'ble Members: 'Vallabhai' ('Shegaon')."

The answer of the Government to these charges was simple and effective: "We cannot mint new rupees, or print new currency notes."

Madras

As compared with 1936-37 the revenue of Madras has increased by 14½ lakhs, and expenditure has been reduced by 5½ lakhs. The abolition of the summer move to the hills has saved Rs. 50,000 annually. For new entrants into Government service reduced scales of pay have been introduced as in other Provinces. At present the annual savings on this account are small—Rs. 41,000 in the budget for 1938-39.

A new source of revenue is the Sale of Cloth Act (hand-loom products). Those who sell the products of the hand-loom have to pay a license fee of Rs. 2 or Rs. 5. The revenue estimated from this source is 1 lakh.

Prohibition was introduced in the Salem District in 1937-38; it is to be extended to two more Districts. The loss of revenue in 1938-39 is estimated at 26 lakhs.

Land revenue remissions in the budget for 1938-39 amount to 73 lakhs.

Special attention is being paid to the improvement of rural water-supply, building and road works, water-supply and drainage schemes in towns, anti-malaria and anti-plague measures, cancer-treatment facilities in Headquarter hospitals, teaching of Hindustani, fruit cultivation and nurseries, veterinary dispensaries, scaling down of debts by means of debt relief enactments, hand-weaving and hand-spinning, hydro-electric projects and "supply of bedding for the first time to under-trial prisoners in public lock-ups".

Fifty lakhs were provided in the budget for 1938-39 for loans to peasants and 7·27 lakhs for loans to agriculturists *e.g.* " for the erection of better dwelling houses."

In concluding his budget speech Mr. C. Raja Gopalchariar said: " A land revenue remission again this year of three-quarters of a crore, the initiation of the ear-marked fund at the back of a planned policy of rural water-supply with a substantial start of 15 lakhs of rupees, half a crore to be utilized in the coming twelve months for redemption of the debts of the small peasantry, a fifty per cent reduction of grazing fees and the extension of prohibition to two more districts are, I believe, enough to commend this budget that I have the honour to present to this House."

The United Provinces

The estimated revenue of the United Provinces in 1938-39 was 13,02 lakhs (11,92 lakhs in 1936-37 and 11,97 lakhs in 1930-31), and the estimated expenditure 13,17 lakhs (12,29 lakhs in 1936-37 and 12,88 lakhs in 1930-31). This Province gets a cash subvention from the Central Government of 25 lakhs.

Economies have been effected which have meant a saving of 20 lakhs. No new sources of revenue have so far been tapped.

The sale of all excisable articles, liquors or drugs, except for medicinal purposes, has been prohibited in two districts, Mainipuri and Etah. The loss of revenue is estimated at 15 lakhs.

The chief forms of constructive, nation-building activity in this Province are the following:—

(*a*) Agriculture. 500 centres are to be started, each with one seed, fertilizer, and implements store. Instruction in improved methods of agriculture will be given on 15,000 demonstration plots. Increased attention is being paid to fruit cultivation and sheep-breeding. A scheme is being developed for the reclamation of *usur* lands by treatment with molasses.

(*b*) Medical. 100 allopathic and 200 Unani and Ayurvedic rural dispensaries are to be opened. It is

hoped that 500 centres would be equipped for medical relief.

(*c*) Cottage industries. 7 lakhs were to be spent in 1938-39 for supplying raw materials and implements to cottage workers, for the marketing of products, and on instruction by competent instructors. In addition 1 lakh was to be spent for the improvement of the gur industry, and 1·6 lakhs for the hand-loom industry. Attention is also being paid to the improvement of the khadi woollen industry, and hand-made paper. One lakh was provided for grants to young men for starting new industrial and other undertakings. Schemes are being prepared for the proper utilisation of molasses.

A mineral survey of the Province is to be carried out, and flying is to be encouraged by the training of 5 or 6 pilots for the United Provinces Flying Club.

(*d*) Cattle welfare and Animal Husbandry. It is proposed to establish immediately at least one veterenary hospital in every tehsil, and it is hoped that 100 new veterenary dispensaries will be opened. New co-operative dairies and cattle-breeding centres are to be started; 1,600 more bulls are to be distributed for breeding purposes.

(*e*) Schemes are being matured for the improvement of pure water-supply.

(*f*) Co-operative marketing schemes are being considered, and a Central Provincial Co-operative Bank is to be established.

(*g*) Ten lakhs have been provided for a campaign against illiteracy. The Wardha scheme is to be tried in suitable centres. Circulating Libraries are to help in the dissemination of knowledge. In a few selected centres District Boards will make provision for refreshments for ill-nourished children in the Primary schools.

The Finance Minister complained of difficulties in reducing expenditure: "But of our total annual revenue more than 4 crores is absorbed by charged expenditure, super-annuation allowances etc., and this expenditure is unavoidable. There is another 4 crores which is not entirely under our control."

BIHAR

For 1938-39 the revenue and expenditure of Bihar were estimated at 498 lakhs and 494 lakhs respectively as compared with 470 lakhs of revenue and 482 lakhs of expenditure in 1936-37 (estimates as presented). Bihar receives no cash-subvention.

The Province received a paltry amount of over 13½ lakhs as share of the Income-tax. "However helpful this amount," said the Finance Minister, "it must be admitted that it is like a drop in the ocean when the needs of the Province are considered." Their 'sheet-anchor for the time-being' is a proposed tax on agricultural incomes, which is expected to yield 40-50 lakhs. How the Bihar Government, in taxing higher agricultural incomes, will avoid the danger of fractionisation of moderate-sized holdings, is not known.

Legislative measures taken to ameliorate the condition of the peasantry are:—The Bihar Tenancy Act designed to give relief to tenants, the Chhota Nagpur Tenancy Amendment Bill on the same lines as the Bihar Act, Money Lenders' Bill whose object is to ensure honest dealing between the debtor and the creditor, the Debt Conciliation Bill, to scale down debts, and the Sugar Factories Contract Act to secure a fairer return to cane-growers.

Demonstration work is undertaken in this Province, particularly in connection with wheat, rice, fruits and irrigation appliances. Encouragement is given to subsidiary agricultural industries, and cultivation of fruit trees; the use of improved seeds, manures and implements is being popularised, young men are to be trained in practical agriculture, and schemes of 'all-round rural development' including education, co-operation, village industries and reorganisation of vllage life are being considered.

Active measures are being taken to combat floods—it is proposed to utilise surplus flood-water for irrigation in the dry season. Chhota Nagpur is to try irrigation by means of electrically worked tube-wells.

Small-scale industries which are receiving Government attention are, tanning, leather goods, weaving, dyeing and printing, basket-making, woollen industries, eri-silk-rearing and spinning in rural areas, rope-making, designing and making of fancy baskets. Jails are to be 'industrialised' chiefly through the instrumentality of the Charkha.

Education is being 'expanded' and improved, special scholarships being reserved for Harijans and aboriginals. Schemes are being matured for 'covering the Province with a net-work of libraries,' both fixed and circulating. Suitable literature will be produced for village folk.

Medical relief is to be extended and measures to improve public health are to be adopted. In this connection a 'Nutrition Scheme' has been evolved—"The object of this scheme is to suggest adequate diet at minimum cost and to advise on the best possible diet for the money spent for the population at large. People would then be able to plan out their own diet within their resources."

No special remedies to deal with unemployment are being considered, since the various schemes mentioned above "are calculated to open up fields of employment, particularly for the educated classes." The Finance Member did not indicate the extent to which unemployment would be reduced by the new schemes.

The concluding reflection of the Finance Minister was that "within the narrow range of our Provincial resources nothing better was possible."

ORISSA

The revenue of Orissa is less than 2 crores, including a cash-subvention from the Central Government of 43 lakhs.

This Province has adopted a programme for providing rural areas annually with 1000 new wells. Village cow-herds are being

trained for improving animal husbandry. Increased attention is being paid to improving the quality of seeds. A three-year programme has been adopted for fruit cultivation; the cultivation of betel-nut, tobacco and of second and third paddy crops is to be extended. To bring down the price of jaggery (which is imported into this Province from Bihar), Government will supply cane-crushers to peasants at the cheapest rate.

Both small-scale and large-scale industries are being encouraged. Among the former may be mentioned the production of *gur* from palmyra juice and date trees, hand-made paper, hand-pounded rice, extracting oil from waste-timber, horn industry, and filigree works. It is proposed to establish a village industries Institute at Cuttack.

As regards bigger industries, we notice a proposal to establish a sugar factory in flood-affected areas to encourage the cultivation of flood-resisting sugar-cane. A paper factory is also to be set up. Coir-making and fruit-preservation are to be developed, and certain kinds of oils are to be used for soap-making. The manufacture of salt in certain areas is also suggested.

Like several other Finance Ministers, the Finance Minister of Orissa has also found that " Our wants are many, but our resources are limited."

Assam

Assam's claim to a share in the excise duty on petrol produced in this Province was not admitted by the Government of India. The Finance Minister said: " Something must, however, be done if the Government is to meet the insistent demand for improving the educational, hygienic and economic improvement of the masses." Assam receives a cash-subvention of 30 lakhs. The estimated revenue in 1938-39 was 264 lakhs and expenditure 269 lakhs.

Central Provinces and Berar

In this Province rent and revenue of small holders have been reduced by 12½ per cent

The objects of new or increased expenditure are village uplift and rural reconstruction schemes, indigenous systems of medicine, cattle-breeding farms, experimental schemes of sheep-farming, an industrial survey of the Province, building of quarantine stations in two districts, and the establishment of three more Land Mortgage Banks.

The Vidya Mandir Scheme is expected to 'furnish the key to the solution of the problem of spreading mass education.'

The Finance Minister struck 'a note of warning' in dealing with impatient critics of his administration: "I appeal to them to bear with us in our difficulties which are none of our making.... ....A budget of 4¾ crores is all too small for the needs of the Province with its population of 16 millions."

North-West Frontier Province

The total assistance to this Province from the Centre amounts to 110 lakhs, including a cash-subvention of 1 crore. And yet the Finance Minister wants more. The only other source of income discovered is Tobacco Vend Fees Act, which is not expected to yield much. In his budge speech (1938-39) the Finance Minister complained that the amount of the subvention 'did not provide for normal expansion and for new items of expenditure on beneficent and nation-building schemes. As a result, very little has been done in this Province by way of constructive activities ......" this state of affairs calls for early redress; it has been continued beyond the limits of our endurance, and we have been forced to re-open the case with the Central Government". He aptly ended his speech with the couplet:

Cho 'ashaq me shudam guftam ke budam gauhar-i-maqsud,
Na danistam ke in darya che mauj-i bekiran darad.

General conclusions on the working of Provincial Autonomy:—

We may summarise our conclusions on the working of Provincial Autonomy as follows:—

1. In a technical sense the aim of the Niemeyer Report and Award has been achieved. The state of

chronic defecit in which certain Provinces had fallen has been ended; financial stability in the case of all Provinces has been attained; their resources have materially increased, and they have started their career as autonomous entities on an ' even keel.'

2. There is no major Province in which increased spending power is not being utilised for the expansion of constructive, nation-building activities. This is true both of the Congress and non-Congress Provinces. In every Province there is a keen desire to promote the well-being of the rural masses and to augment the sources of wealth production in order to increase the income of the people. This task is being attempted in each Province within the limits of the resources of the Province.

3. But very little has been done to reduce the burden of rural texation. The remissions in land revenue, where they have been granted, are inadequate. It is most remarkable that inspite of the heavy fall of prices since 1928-29, which has made cultivation over a large part of the country unprofitable, the total amount of land revenue realised in the Provinces at the present time is about the same as in the pre-depression year 1928-29:—

LAND REVENUE IN LAKHS RS.

	1928-29.	1938-39 (Budget).
Madras	525	499
Bombay }	..	340
Sind }	485	32
Bengal	327	351
U. P.	604	612
Punjab }	..	294
N. W. F. P. }	278	20
Bihar }	174	135
Orissa }	..	48
C. P.	219	249
Assam	117	121
TOTAL ..	27,29	27,01

4. While the attempt to increase the income of the people by the improvement of agriculture and the marketing of agricultural produce deserves all praise, the main source of the agriculturist's income is the prices at which his crops are sold, and prices are beyond the control of Provincial Governments.
5. Cottage industries are being promoted in all Provinces, but they have little chance of survival in competition with machine industries. The development of factory industries depends on conditions determined by the Government of India.
6. The problem of indebtedness of the peasantry remains unsolved. The action taken in certain Provinces, e.g. the Punjab, is tending to destroy the foundations of rural credit.
7. There is no Province which could usefully increase its expenditure on nation-building activities, in relieving indebtedness, and in reducing the burden of rural taxation. But no important new sources of revenue have been discovered. The main existing sources of Provincial revenues are largely rigid and inelastic.

8. Expenditure, like revenue, is largely inelastic, the scope for retrenchments being very restricted.
9. Democracy has both a pleasant and an unpleasant aspect. Provincial Autonomy in certain Provinces is a direct cause of growing communal tension. The cost of Legislative Bodies has materially increased. Democracy is a costly luxury. What the Provinces require is cheaper administration. So far as the good of the people is concerned, it is doubtful if the present Unionist or a future Congress Government in the Punjab, under the existing economic system, would be able to do more for the people in the next fifty or hundred years than what the irresponsible bureaucratic administration achieved in 30 years in pre-Reform days. The only satisfaction that we now have is that we are governing ourselves. But it is government under conditions which bar real progress. So far as members of the Legislature are concerned, most of them may be described as practically illiterate, and they are guided in their legislative activities by Party or even communal considerations. Is Democracy worth its cost?

Provincial Budgets, 1939-40

We have discussed Provincial budgets for 1938-39 in some detail as they were the first budgets of autonomous Provincial Governments. Briefer notice is sufficient for the budgets for 1939-40 since they do not reveal any new situation. Everywhere the work of nation-building described above is being pushed forward. The prohibition programme is being zealously pursued particularly in two provinces, Madras and Bombay. The cost of prohibition in Madras is estimated at 65 lakhs while in Bombay the loss on this account is estimated at 150 lakhs (which may be contrasted with the reduction in land revenue of 40 lakhs). Bengal and Sind budgets show slight surpluses. Bihar budget is 'just balanced, and only just balanced' in the words of the Bihar Finance Minister.

Deficit budgets have been presented in the United Provinces (38 lakhs), Orissa (18 lakhs), Madras (17 lakhs), Bombay (28 lakhs) and Punjab (29 lakhs). Proposed new taxes in these provinces are: United Provinces, a tax of 2 As. per gallon on the sale of petrol, and an employment tax on persons drawing a salary of Rs. 2,500 or more (the unemployment tax is objected to by the Central Government as *ultra vires*); Madras: a tax on tobacco, a tax on the sale of goods generally, and an entertainment tax; taxes on the sale of petrol and the sale of electricity are also contemplated; Punjab: a tax on the sale of motor spirit and lubricants; Bombay: (*i*) enhanced fee on conveyances in urban areas; (*ii*) enhanced electricity duty in Bombay and other cities, (*iii*) urban immovable property tax at 10 per cent of the saleable value of such property (expected to yield 118 lakhs in Bombay), (*iv*) sales tax on petrol, and (*v*) a tax on cross-word competitions (expected to yield 5 lakhs). The new taxation, particularly in Bombay is heavy.

It may be doubted whether it was advisable to forego considerable excise revenue when Provincial Governments were financially not in a position to do so. And a great part of the additional taxation will be utilised not to give relief to the peasantry but to make good the loss of excise revenue. No great harm to the country as a whole would have resulted had topers been permitted to get drunk, as before, for a few years more. Drink is not such a serious evil in India as in Western countries.

The Punjab deficit is entirely due to famine in Hissar. Famine also converted an anticipated surplus of 7 lakhs in 1938-39 into a deficit of 27 lakhs. Direct expenditure on account of the famine amounted to 27 lakhs in 1938-39 and is estimated at 39 lakhs in 1939-40. Remissions and suspensions of revenue account for a further sum of 28 lakhs in 1938-39 and 16 lakhs in 1939-40.

The Haveli project has been completed at a cost of about 3 1/2 crores in less than half the time originally contemplated and with considerable saving in expenditure. The construction of the Thal Project is to begin at a very near date, and the Finance Minister spoke in 'definitely hopeful terms' of the Bhakra Dam Scheme. When the latter two projects are completed, 'it would be

literally correct to say ' in the words of our Finance Minister, ' that every available ounce of water in our rivers shall have been utilised '.

When the Bhakra scheme materialises (estimated cost 12 crores) Hissar and Rohtak will have been protected against the worst terrors of famine.

Provincial Budgets. Revenue 1938-39 in Lakhs of Rs.

Principal Heads of Revenue.	Punjab.	Bengal.	U. P.	Bombay.	Madras.	Bihar.	Orissa.	C. P. & Berar	Assam.	N. W. F. P.	Sind.
Taxes on income other than corporation taxes											
1938-39 ..	—	26	20	25	21	18	—	6	—	1	—
1936-37 ..	—	—	—	—	—	—	—	—	3	—	—
Land Revenue.											
1938-39 ..	294	351	612	340	499	135	48	249	121	20	32
1936-37 ..	297	354	565	344	476	—	—	254	130	22	41
Provincial Excise.											
1938-39 ..	104	150	136	298	389	102	32	64	36	9	31
1936-37 ..	104	136	153	325	396	—	—	64	36	9	35
Stamps.											
1938-39 ..	91	290	147	143	186	102	18	45	20	8	17
1936-37 ..	90	302	163	147	195	—	—	50	18	8	19
Forests.											
1938-39 ..	24	19	48	40	45	7	4	49	17	5	7
1936-37 ..	22	18	44	48	48	—	—	48	17	4	7
Registration.											
1938-39 ..	10	24	11	15	37	13	2	7	2	1	2
1936-37 ..	9	24	10	15	31	—	—	5	2	1	2
Receipts under Motor Vehicles Taxation Acts.											
1938-39 ..	8	21	10	41	54	—	—	5	3	2	2
1936-37 ..	7	—	—	41	49	—	—	4	1	—	2
Other Taxes and Duties.											
1938-39 ..	3	20	5	48	3	—	—	5	—	—	3
1936-37 ..	1	17	—	49	1	—	—	—	—	—	3
(Net) Irrigation.											
1938-39 ..	451	—	163	—	104	18	9	—	—	12	58
1936-37 ..	442	—	152	—	123	—	—	—	—	12	90
Customs.											
1938-39 ..	—	*240	—	—	—	14	2	12	—	—	—
1936-37 ..	—	—	—	—	—	—	—	—	—	—	—
Grants in aid from Central Government.											
1938-39 ..	—	—	25	—	—	—	43	—	30	100	105
1936-37 ..	—	—	—	—	—	—	—	—	—	100	125
Grand Total											
1938-39 ..	1172	1313	1302	1209	1598	498	192	482	264	180	345
1936-37 ..	1127	1214	1192	1241	1576	—	—	471	253	175	—

**Includes Bengal's share of Jute Duty.*

Provincial Budgets. Expenditure in Lakhs.

	Punjab.	Bengal.	U. P.	Bombay.	Madras.	Bihar.	Orissa.	C. P. & Berar	Assam.	N. W. F. P.	Sind.
General Administration.											
1938-39	115	176	145	81	282	68	30	71	34	23	24
1936-37	109	134	150	105	280	—	—	70	28	21	21
Police.											
1938-39	125	226	167	142	161	81	24	60	31	34	40
1936-37	126	227	168	143	161	—	—	61	30	32	39
Education.											
1938-39	163	154	211	191	262	69	27	58	36	23	31
1936-37	158	131	206	160	256	—	—	53	35	21	28
Medical.											
1938-39	53	59	36	46	98	22	9	18	15	7	8
1936-37	47	49	34	42	93	—	—	15	14	7	7
Public Health.											
1938-39	18	47	23	32	39	11	3	5	9	3	3
1936-37	11	34	22	23	24	—	—	4	7	1	2
Agriculture.											
1938-39	40	*36	71	15	23	9	2	10	6	*5	9
1936-37	31	*27	27	14	22	—	—	9	5	*5	6
Industries.											
1938-39	20	21	21	12	27	11	3	3	3	1	2
1936-37	15	14	15	7	23	—	—	3	2	—	1
Population Million ..	23·6	50·1	48·4	18·0	44·0	32·4	8·3	15·3	8·6	2·4	3·9
Total Expenditure charged to revenue.											
1938-39	1149	1324	1317	1250	1598	494	195	481	269	187	359
1936-37	1084	1174	1229	1201	1596	—	—	482	292	180	360

*Includes Veterinary and Co-operation.

Punjab. Land Revenue and Irrigation (Lakhs).

	B. Estimate.	Revised estimate.	Accounts.	Accounts.
	1938-39	1937-38	1936-37	1935-36.
Land Revenue, Gross	479	479	487	473
Deduct portion of land revenue due to Irrigation	186	187	190	195
Net Land Revenue	294	292	297	278
Irrigation works for which capital accounts are kept:—				
Direct Receipts	431	437	431	415
Indirect credits (land revenue due to Irrigation)	186	187	190	195
Gross amount	616	624	621	609
Deduct working expenses ..	166	166	181	184
Irrigation Receipts	450	457	440	426
Irrigation works for which no Capital Accounts are kept	1	2	2	2
Total Irrigation	451	459	442	427
Add Land Revenue	294	292	297	278
TOTAL ..	745	751	739	705

	1928-29	1929-30	1930-31	1931-32.
Land Revenue, Gross	454	457	459	371
Deduct land Revenue due to Irrigation	176	199	190	170
Net Land Revenue	278	258	269	202
Add Irrigation, Net	374	394	362	411
TOTAL ..	652	652	631	613

GENERAL INDEX OF SUBJECTS

Agricultural credit, Ch. 19; and Reserve Bank, 515.
Agriculture, distribution of crops, 88; State in relation to, 95; yield of principal crops, 87; pressure on, 13 *et seq.*
Agrarian legislation, Punjab, Ch. 20; other Provinces, Ch. 21.
Animal husbandry, 97.
Babington-Smith Currency Commission, 441.
Banking, Ch. 18.
Capital, external, 496.
Cartellisation, 363.
Chamberlain Currency Commission, 430.
Charter of Labour, Italian, 407 *et seq.*
Coal, 121.
Co-operative credit, Ch. 19.
Cottage industries, Ch. 6; causes of decline, 167 *et seq.*; in different provinces, 178 *et seq.*
Crisis, Ch. 13; American boom, 318; conjunctural explanation, 316; causes, monetary and non-monetary, Ch. 14; debtor and creditor relations, 321; fall of prices, 1929-33, 312; financial crisis of 1931, 327; structural over-production, 354.
Devaluation, meaning of, 467.
Discrimination against British imports, 261.
Disputes, industrial, in India, 207.
Distribution, problem of, 81 *et seq.*
Emigration, 15, 24.
Exchange, demand for the 16*d.* rate, 465 *et seq.*; 18*d.* gold rate, 450 *et seq.*; and the Reserve Bank, 491.
Exchange banks, functions of, 478.
Factories, Indian, 159; factory workers in India and England, 161.
Farm Relief in other countries, 520.
Fascism, economic constitution of, in Italy, 390 *et seq.*; educational ideals of, 213.
Finance, Indian, Ch. 23; Provincial, Ch. 24.
Fiscal autonomy, 261.
Forests, 102.
Gold bullion standard, 441.
Gold Delegation Report, 338.
'Golden Bills,' 539.
Gold Exchange Standard, 426 *et seq.*
Gold, position in the currency, 1835-73, 416; price of, 273, 282; sterilisation, of, 333.
Herschell Currency Committee, 422.
Holdings, consolidation of, 511.
Home Charges and Exchange, 470.
Imperial Preference, 256 *et seq.*
Income-tax, India, 580.
Indo-British Trade Agreement (1939), 269.

Indo-Japanese Trade Agreement, 138. in
Industries, earners and working dependents, 10-11; account of manufacturing, cement, 148; cotton, 134; iron and steel, 128; sugar, 141; Great war and, 126.
Industrial banking, 493.
Industries Departments, expenditure, 165; work of, 165.
Irrigation and density of population, 5 *et seq.;* and water-logging, 104 *et seq.*
Joint-stock banks, progress of, 480.
Jute, 154.
Labour, at Jamshedpur, 133; in manufacturing industries, Ch. 7.
Labour Commission, 1929, recommendations of, 186; Government action on the report of, 188 *et seq.*
Labour legislation, Provincial, 195.
Landlordism, Punjab, 553 *et seq.*
Land Revenue, 590 *et seq.*
Malthusian Law and India, 70 *et seq.*
Managing agency system, 495.
Manganese, 123.
Marketing legislation, 536.
Minerals, Indian production of, 118.
Mines, 190.
Mody-Lees Agreement, 138.
National economies, rise of, 362.
'Net Assets' in the Punjab, 596 *et seq.*
Niemeyer Award, the, 639 *et seq.*
Ottawa Agreement, 262 *et seq.*
Over-population, relative and absolute, 74 *et seq.*; symptoms of, 78.
Over-production, 337, 340 *et seq;* and under-consumption, 403.
Planning, economic, Ch. 16; in Italy and Germany, 389 *et seq.;* socialist, 401; Sir M. Visvesvaraya's plan, 368.
Population, of India, age distribution, 51; birth and death rates, 44; 49; and food supply, 89; density of, 2 *et seq;* distribution of, Ch. 1; expectation of life, 53; infant mortality, 50; marriage, 57; movement, of, Ch. 2; rate of increase compared with Europe, 40; sex ratio, 55; urban and rural, 59.
Prices, history of Indian, Ch. 12.
Prices Committee (Datta), 295 *et seq.;* effects of fall of, 302.
Production, industrial, Ch. 5.
Profits, industrial, 375.
Rail-road competition, 244.
Railways, Ch. 9; Government and, 235; in the depression, 241; separation of railway budget from general budget, 233; State *v.* Company management, 231.
Recovery, Ch. 15; factors in 367 *et seq.;* devaluation and, 368; re-armament and, 371.
Recovery in India, industrial, 375; agricultural, 379.
Reserve Bank, Ch. 18.
Rural indebtedness of India, 530.
Rural self-sufficiency, 174 *et seq.*
Rural taxation, 585 *et seq.*

Sales of land, in the Punjab, 547.
Silver, role of, in the depression, 358.
'Slab' system, 580.
Soil deterioration, 92.
Standard of living (industrial labour), 196 *et seq.;* in India and Russia, 205.
State landlordism, 590 *et seq.*
'Swallowing up,' 542 *et seq.*
Tariff, development of Indian, 253.
Taxation, Ch. 22.
Tea 157.
Tenancy legislation, 563 *et seq.*
Trade Disputes Act, 194.
Trade, foreign, Ch. 10; in 16th and 17th centuries, 247 *et seq.*
Trade Unions, 208.
Uneconomic holdings, 93.
Unemployment, educated, Ch. 8.
Variable yield securities, 376.
Wages, payment of, 191; in India and Russia, 205.
Water-logging, causes, 106; effects, 108; extent of 116-17; remedies, 112.
Water-rates, Punjab, 587 *et seq.*
Wheat, world production, 347.
Workmen's Compensation, 193.

STATISTICS

Agriculture, area sown with crops, 13; area under food-grains, 90; yield of crops, 87.
Age distribution, India, Germany and France, 51.
Area, population and density in certain countries, 30.
Co-operative credit societies, 508-09.
Cotton mill industry, production, 135, 138.
Cotton, world production, 348-49.
Debt, Indian, 1911-12 to 1920-21, 622.
Earners and Working dependents (industries), 11.
Education, progress of, 207.
Exchange and price of silver, 439-40.
Expectation of life, India and Germany, 54.
Exports and imports (total value of), 379.
Factories, Indian, 159-60.
Family budgets, 198.
Family, size of, 67-8.
Farm Accounts, Punjab, 554-55.
Finance, Indian, revenue and expenditure 1913-14 to 1920-21, 618-19; 1928-29 to 1930-31, 627-28; 1936-37 to 1938-39, 637-38; Provincial, 1938-39, 662-63.
Forests, revenue and expenditure, 102.
Imports of cloth, 134; cotton, 268; gold, 272, 449; matches, 146-47; paper, 151; silver, 360.
Income-tax, 584.

Index numbers, Calcutta, 300; Commercial Intelligence Dept., 304; of rice and wheat with smoothed averages, 307 *et seq.*
Industrial activity, index numbers of, 377.
Industrial disputes, 207.
Industrial profits, 375.
Land, distribution among owners in the Punjab, 84; sales of, in the Punjab, 543, 547.
Land revenue and irrigation receipts, Punjab, 1928-29 to 1938-39, 658, 664.
Literacy, 64.
Livestock, 97, 99; international statistics, 100-01.
Marriage, 58-9.
Military expenditure, 1913-14 to 1920-21, 621.
Minerals, prices of, 120.
Ottawa Agreement, effects of, 264-66.
Population, density according to natural divisions, 3; density in Europe, 8; irrigation as a factor affecting density, 6-7; distribution of, 29; growth of in India and other countries, 43; rural and urban, 60-1; supported by agriculture and industry, in India and other countries, 31.
Prices, 293, 295; since 1929, 301; international gold, 1925, 459.
Railways, capital expenditure, 234; financial position of, 242-43.
Sex Ratio, 55-6.
Trade, foreign, 247; direction of, 257.
Vital statistics, 65-6.
Water rates, Punjab, 586.